Government – Business Relations between Eastern Indonesia and the Northern Territory

Edited by

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FOREWORD

THE HON. SHANE STONE

It might surprise many observers that for a part of Australia with such a small population, there should be such a long history of close relations with Indonesia. That the relationship between the Northern Territory and Indonesia should be regarded as so important by both Governments in Canberra and Jakarta and that the Northern Territory should be held in such high regard at the highest levels of Government in Indonesia, and indeed in other countries of South East Asia.

Why do we have this special relationship with Indonesia, and how has it benefited ordinary Territorians? How has this special relationship benefited Australia as a whole? Territorians bring perspectives unique in Australia to understanding and engaging with Asia.

Since Self-Government in 1978, the Territory has looked north for the fulfilment of our vision for a prosperous future for the Territory. The great distances which separate the Territory from the rest of Australia meant that we could not rely on the markets of southern Australia alone to build our future. We re-oriented ourselves to seeing the opportunities of being inside the Asian circle rather than being on the distant periphery of Australia. We were lucky. We started the search for markets in Asia just as Asia began its era of rapid growth.

For Australia as a whole, Asia is one of several foreign and trade priorities, albeit a major one, alongside the European Union.

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1 The Hon. Shane Stone is Chief Minister of the Northern Territory.
and the United States, for example. For the Northern Territory, Asia assumes an overwhelming significance dwarfing our other markets and interests. Asia is right at our doorstep.

Eastern Indonesia stretches across Northern Australia just hundreds of kilometres away. You will have heard of the map in my office which, by placing Asia at the centre, shows Darwin on the south eastern boundary of South East Asia. Southern Australia is so distant as not to appear on the map.

At the national level, interest in and commitment to engagement with Asia has tended to fluctuate but the Northern Territory has remained totally and unequivocally committed to developing business, cultural, educational and people-to-people links with Asia and this will continue to be the case.

We are the only Government in Australia which has a Minister for Asian Relations. We take this position because our continuing future prosperity depends overwhelmingly on the continuing success of East Asia’s economic miracle and our skill and cleverness in tapping into the opportunities for growth presented by that miracle.

Looking ahead, we see challenging times ahead in Asia for the Northern Territory and Australia generally. There are risks, but above all we see opportunities. Continuing high growth in Asia means rising demand for Australian minerals, oil and gas and food. Growth in Asia stimulates higher demand for Australian skills and experience in banking and insurance, telecommunications, construction, information technology and entertainment. Rising incomes are encouraging increasing numbers of Asians to visit Australia as tourists. Asian growth means Australian jobs.

How have we gone about building the relationship with Indonesia? The Memorandum of Understanding with Indonesia on Economic Development Cooperation (MOU), signed in January 1992, was a major step in formalising and consolidating the relationship. It recognised that the Northern Territory and Eastern Indonesia face similar problems such as:

- remoteness from centralised government;
- have export commodities and skills which complement each other;
- share a common climate; and
• while Eastern Indonesia has abundant human resources, the Northern Territory has the technological and HRD training and educational skills to help Eastern Indonesia develop its vast natural resources.

Over the years we have endeavoured to turn the MOU into practical benefits for both sides and this has had good results, both in terms of export dollars earned and business done and the recognition at high levels of Government in Indonesia and Canberra of the primary role that the Northern Territory has played in forging a closer relationship with Indonesia.

Last October, for example, Eric Poole, the Northern Territory Minister for Asian Relations, Trade and Industry, attended the Australia-Indonesia Ministerial Forum as a guest of the Foreign Minister, Mr Downer. This was the first time a State Government Minister had attended this important forum. At the Ministerial Forum Mr Downer described the Northern Territory as the ‘pacesetter’ in developing regional government level links with Indonesia, and in return Coordinating Minister for Production and Distribution Dr Hartarto defined the Northern Territory as the ‘trend-setter’.

At the Ministerial Forum a new bilateral growth area concept was launched – the Australia Indonesia Development Area, or AIDA as it is known. AIDA’s task is to stimulate growth in the provinces of Eastern Indonesia and thereby help reduce the gap in incomes and welfare between Eastern Indonesia and the islands of Java and Sumatra which have experienced the fastest growth. The goal is more even development which over time should raise incomes and welfare in Eastern Indonesia, reduce inequity and help national cohesion.

AIDA is therefore an important initiative for both Australia and Indonesia. And consistent with its commitment to Eastern Indonesia, the Northern Territory has been an active supporter of the AIDA initiative from its beginnings.

How has all this benefited Territory business? I would like to mention two cases which show that our efforts at building up strong regional links, and especially strong links with Indonesia, has brought significant commercial benefit to Northern Territory firms.
Let me start first with the live cattle trade. Throughout the 1980s small numbers of live cattle were exported via Port Darwin to countries in South East Asia. In 1992 we signed the MOU with Indonesia on Economic Development Cooperation – in that year the number of live cattle exported via Port Darwin almost doubled from 8675 head to 16 085; the numbers exported via Port Darwin have almost doubled every year since.

In 1996 over 232 000 head of live cattle were exported to Indonesia via Port Darwin, worth over $108 million. This export trade has benefited a booming cattle fattening industry in Indonesia, and also contributed to increased availability of high quality, high protein beef for the people of Indonesia.

Among the several factors contributing to this phenomenal growth were the benefits provided by our MOU, for example:

- greater ease of access to Indonesian Government decision makers;
- greater understanding in Indonesia of the NT's capabilities and preparedness to assist with the development of this industry.

In implementing the MOU the Northern Territory Government has also, for example, provided briefings on the Northern Territory cattle export industry, and live cattle exporting processes to visiting Indonesian delegations and given support to Northern Territory cattle exporters and suppliers of veterinary service and advice. The Department of Primary Industries and Fisheries' Asia Links program has also played a vital role in raising regional confidence in the live cattle export program.

The Northern Territory Government has also provided significant support towards the cost of construction of the export cattle holding yards at Berrimah. These holding yards are a vital part of the cattle exporting infrastructure in the Northern Territory.

The live cattle export story is a concrete example of an area where good government-to-government links via an MOU have contributed to increased exports for Northern Territory business and thus:

- more jobs for Territorians; and
• more jobs for Australians all over northern Australia, because some 45 per cent of those live cattle exported via Port Darwin come from Queensland.

Bulk Transfer Systems

Another business success in Indonesia is the story of the Bernie Ostermeyer's company flex-tipper. A Darwin company, Bulk Transfer Systems, designed the flex-tipper several years ago, and it has taken the mining and haulage industry by storm. Its unique design leads to increased productivity of up to 33 per cent for flex-tippers over conventional rear-tipping trailers or side-tippers with doors.

Bulk Transfer Systems (BTS) has formed a joint venture with PT United Tractors of Indonesia, a member of the Astra group of companies. They are now producing flex tippers in Jakarta under licence, and together BTS and PT United Tractors aim to capture 50 per cent of the world-wide mining transportation market. As a result BTS has grown to provide employment for over 40 people in Darwin.

Quality of Life for Individual Territorians

Pioneering Government links should also lead the way in improving the quality of life for our citizens. We have already seen that improved government-to-government links with our Asian neighbours pave the way for the development of strong business links, which in turn lead to stronger growth for Northern Territory businesses, and thus more jobs for ordinary Territorians.

The Northern Territory has the lowest level of unemployment in Australia, and our trade and commercial links with Indonesia are an important contributing factor in keeping unemployment low.

Our links with Indonesia also contribute in other ways to improved quality of life for individual Territorians. In education for example, Indonesian is taught throughout our schools, leading to a better understanding of our nearest neighbour, and increasing the cultural richness of the education we give our children. Our student and teacher exchange programs provide
individuals with the opportunity to experience a foreign culture, thus enriching their lives, and that of their families.

Our frequent cultural exchanges with Indonesia also enrich the cultural life of individuals in the Territory, and in Darwin especially. For example, a centrepiece at this year’s Festival of Darwin will be an exhibition of contemporary Indonesian art from Bali, an exhibition facilitated by the MOU we signed with Bali last year.

Radio Australia and ATVI

I cannot conclude without emphasising again the importance to all Australians of maintaining Radio Australia and ATVI, Australia’s television service into Asia. Asia is a highly competitive market place and Australia faces stiff competition for exports, investment, profile and airtime with companies from Europe, the United States and other Asian countries. We cannot just assume that we are well known and that what we have to offer is well understood in Asia. Australia needs more, not less money spent on ATVI and Radio Australia to ensure quality programming and effective marketing of all we have to offer the region. A polished, high quality ATVI would substantially enhance the image in Asia of Australia, its products and its capabilities.

Conclusion

In conclusion, I would like to congratulate the North Australia Research Unit of the Australian National University for developing its new focus on Eastern Indonesia. It is a welcome acknowledgment of the importance to northern Australia of our growing links with Indonesia. I wish NARU every success in developing as a centre of excellence on the study of Northern Australia-Eastern Indonesia links. These proceedings are a valuable step towards achieving such a role.
List of Acronyms

ABS  Australian Bureau of Statistics
AFTA  ASEAN Free Trade Area
AIDA  Australia-Indonesia Development Area
AMSAT  Australian Marine Science and Technology
ANU  [The] Australian National University
APEC  Asia Pacific Economic Cooperation
ASEAN  Association of South East Asian Nations
ATVI  Australian Television Indonesia
AusAID  Australian Agency for International Development
Bappenas  Badan Perencanaan Pembangunan Nasional
National Planning Development Board
BHP  Broken Hill Proprietary Ltd
BIMP-EAGA  Brunei Indonesia Malaysia Philippines East
           ASEAN Growth Area
BKPM  Badan Koordinasi Penanaman Modal,
       Indonesian Regional Capital Investment
       Coordination Board
BOOT  Build Own Operate and Transfer
BPS  Biro Pusat Statistik,
     Central Bureau of Statistics of the Republic of
     Indonesia
BTEC  Brucellosis and Tuberculosis Eradication
     Campaign
CER  Closer Economic Relations
CIDES  Centre for Information and Development Studies
COREMAP  Coral Reef Management and Rehabilitation
          Project
COW  Contract of Work
CRA-RTZ  Consolidated Rutile of Australia-Rio Tinto Zinc
DARTI  Department of Asian Relations, Trade and
        Industry
Dati II  Daerah Tingkat 2 (Region Level 2 – district)
Dewan KTI  Dewan Pengembangan Kawasan Timur Indonesia
           Presidential Council for the Development of
           Eastern Indonesia
DFAT  Department of Foreign Affairs and Trade
DIFF  Development Import Finance Facility
DIST  Department of Industry, Science and Technology
EAAU  East Asia Analytical Unit
EFIC  Export Finance Insurance Corporation
EI-NT  Eastern Indonesia-Northern Territory
FIAS  Foreign Investment Advisory Service
GCOS  Global Climate Observing System
GNP  Gross National Product
GOOS  Global Ocean Observing System
GSP  Gross State Product
HRD  Human Resource Development
HS  Harmonised System
INPRES  Instiaksi Presiden
ISAES  Institute of Strategic Economic Studies
ITS  Integrated Technical Services
JA  Joint Authority
JPC  Joint Policy Committee
KTI  Kawasan Timur Indonesia
LIPI  Lembaga Ilmu Pengetahuan Indonesia
       Indonesian Academy of Sciences
LNG  Liquified Natural Gas
MOC  Memorandum of Cooperation
MOU  Memorandum of Understanding with Indonesia
       on Economic Development Cooperation
MTIA  Motor Trades Industry Association
NARU  North Australia Research Unit
NGO  Non Government Organisations
NIE  Newly Industrialised Economy
NTB  Nusa Tenggara Barat
NTT  Nusa Tenggara Timur
OECD  Organisation for Economic Cooperation and
       Development
PSC  Production Sharing Contracts
R&R  Rest and Recreation
Rakorgang  Rapat Koordinasi Pembangunan,
           District or Provincial Development Coordination
           Meeting
Repelita VI  The Sixth Five-year Economic Development Plan
           for Indonesia
RSPAS  Research School of Pacific and Asian Studies
SIJORI  Singapore-Johor-Riau
SPARTECA  South Pacific Regional Trade Economic Cooperation Agreement
SPC  South Pacific Commission
T&W  [NT Department of] Transport and Works
TDZ  Trade Development Zone
UNESCO  United Nations Education, Social and Cultural Organisation
WTO  World Trade Organisation
List of Indonesian Translations

Badan Perencanaan Pembangunan Nasional
National Planning Development Board

Badan Koordinasi Penanaman Modal
Indonesian Regional Capital Investment Coordination Board

Biro Pusat Statistik
Central Bureau of Statistics of the Republic of Indonesia

daerah
regions

Dewan Pengembangan Kawasan Timur Indonesia
Presidential Council for the Development of Eastern Indonesia

kabupaten
regency, district, administrative level below the level of province

kapet
integrated economic development zone

kotamadya
municipality, same administrative status as kabupaten

Lembaga Ilmu Pengetahuan Indonesia
Indonesian Academy of Sciences

Perahu (pahaw) non-motorised sailing vessel

Rapat Koordinasi Pembangunan
District or Provincial Development Coordination Meeting
THE NORTHERN TERRITORY AND EASTERN INDONESIA

Developing the Neighbourhood Together

CHRISTINE FLETCHER

The collection of essays in this volume represents a serious attempt to outline the framework and the processes of intergovernmental interactions that support a wide range of relationships between the Northern Territory and the Eastern Provinces of Indonesia.

The Northern Territory sees its relationship with Indonesia, and other countries to the north, as part of the foundation for its own economic future. In order to achieve that foundation, it needs to reinforce a number of relationships – not least with Indonesia. In order to strengthen such a relationship, the Territory relies heavily on support from the commonwealth and the other states in order to reinforce its own fledgling infrastructure. As Australia’s ‘gateway’ to Asia, in particular to Indonesia and those countries in relatively close geographic proximity to northern Australia, arguably, the Northern Territory is in a solid position to take a strategic approach to the future.

1 Christine Fletcher is Unit Director, North Australia Research Unit, Research School of Pacific and Asian Studies, The Australian National University, Darwin.
There are, however, gaps in our understanding of our neighbour's economic, cultural, demographic, social and political circumstances. If the Northern Territory undervalues the importance of long-term strategic planning, research and analysis, or fails to receive support from the commonwealth and the states, its northern relationships could stagnate – or worse. At the present time, much of the literature on Australia-Indonesia relations tends to be dominated by a national, rather than a regional economic perspective – with the exception of cultural and linguistic studies. Historical perspectives are the most revealing because, generally speaking, they provide a backdrop for economic data which, from most accounts, dominates the scene. But because of the turbulence of Indonesia's political history and the subsequent emergence of strong centralisation, economic studies also are shaped by events at a national level.

Part of the reason why the regional focus has languished can be traced to the Northern Territory's own history of 'development'. Considered by many to be something of a 'frontier', the Territory has moved in fits and starts, since Self-Government in 1978, to achieve a viable economic position within the Australian federation.

Recognising the potential of the Asian market to the north, the Northern Territory has attempted to overcome its own economic vulnerability by marketing itself as the future gateway to Asia, particularly Indonesia, and more specifically, the Eastern Provinces of Indonesia. Of course, the role played by the Northern Territory is carried out within the broad framework of Australia-Indonesia relations – the most recent is the Australia Indonesia Development Area (AIDA) agreement, signed by Ministers Downer (Australia) and Hartarto (Indonesia) in Ambon on 24 April 1997 – and on the Territory's own ability to entice support from southern investors while at the same time shoring up sufficient recognition from colleagues in the other states.

The Northern Territory's position is probably less than one half of the story – Indonesian provincial perspectives on regional economic development, trade and government-to-government relations differ markedly.

In reality, the relationship is in its early stages, first, because under the AIDA agreement initiated by Indonesia, the regions
targeted for economic development and investment are underdeveloped. And, second, the Northern Territory is also relatively underdeveloped when compared to the other Australian states – in context with this the most obvious, but by no means the only, sector that requires serious attention is the Alice Springs to Darwin railway.

It is against this background that the contributors to this volume came together to present their own particular expertise. The contributors include the Chief Minister of the Northern Territory and two senior government Ministers, government experts in Eastern Indonesia, leading anthropologists, economists, historians and businessmen. The papers cover a diverse range of issues. The Chief Minister, the Hon. Shane Stone, presents the Foreword from an official Northern Territory perspective: he describes AIDA as an agreement that has a dual purpose, primarily,

> to stimulate growth in the province of Eastern Indonesia and thereby help reduce the gap in incomes and welfare between Western Indonesia and the islands of Java and Sumatra which have experienced the fastest growth. The goal is more even development which over time should raise incomes and welfare in Eastern Indonesia, reduce inequity and help national cohesion.

The purpose of AIDA involves a deep commitment between the two countries: despite obvious hurdles and constraints, to reinforce their position as neighbours and to assist business and investment from both countries to engage with each other in regional development. The benefits are the subject of much of the discussion in this collection of essays but, at a fundamental level, clearly one major outcome is the extent of regional political and economic stability that results from the type of activity that underpins the general topics addressed by the various contributors.

Hal Hill, who leads the Indonesia Project, which is under the auspices of the Research School of Pacific and Asian Studies (RSPAS) at the Australian National University (ANU), provides the proceedings with a conceptual framework – he puts historical developments into context.

Frans Seda, as Co-chairperson of the Memorandum of Understanding (MOU) which was signed between the Northern
Territory and Indonesia, provides a great deal of valuable details about the purposes of the MOU, particularly from an Indonesian perspective. Dr Seda draws our attention to the significance of the agreement – the fact that it is one of the few agreements to be implemented between the national government of one country (Indonesia) and the sub-national (or state) government of another country (the Northern Territory in Australia). In Frans Seda’s mind, the MOU is the basis for AIDA – without the MOU the cross-national cultural and political networks between Australia and Indonesia might not have been strong enough to support economic development at a regional level. This is a point that some observers and participants might find disagreeable, largely because of the diversity of viewpoints and most particularly, the level of expectations that appear to surround opinions of the MOU.

In reality, the MOU is the building block – what might be termed the intergovernmental framework – for the exploration of more advanced and innovative ways to encourage a response from industry – AIDA is not a replacement of the MOU but an extension of the MOU – an invitation to recognise the benefits of development assistance across a range of economic, trade, infrastructure and social sectors and to use the process provided by AIDA to raise the standard of regional development. In Chapter Four, for example, Patrick Markwick-Smith points out that the MOU itself should be seen as one of many outcomes within a series of domestic developments between Australia and Indonesia. He writes that

In terms of structure, the MOU established an organisational environment designed to promote business activities. Accordingly, the Joint Policy Committee (JPC) responsible for implementing the MOU was supported by a series of working parties; one for each of the ten provinces comprising Eastern Indonesia (usually headed by the provincial head of Bada Koordinasi Penanaman Modal (BKPM) – the national investment coordinating board) and a northern Territory working party ... The purpose of the working parties was to bring business opportunities to the attention of Australian and Indonesian business people in their respective provinces (p.46)
Markwick-Smith makes the point that the implications of the MOU extend not only to the principles that underpin AIDA but also to the development of other agreements with the Brunei Indonesia Malaysia Philippines-East ASEAN Growth Area (BIMP-EAGA) countries, such as the Philippines, Brunei and the Malaysian Federal Territory of Labuan.

In Chapter Five, Jim Fox, also from the ANU, defines the profiles of Eastern Indonesia and northern Australia by adding social and linguistic content to the conference. He begins with the origins of our respective histories. His chapter covers the beauty of Eastern Indonesia and the richness of cultural and linguistic diversity of both Eastern Indonesia and Australia encountered between the people of Indonesia’s Eastern Provinces and the indigenous peoples of northern Australia together with the emergence, more recently, of our separate but related interests particularly. This chapter is essential reading for those who wish to understand our contemporary relationship.

Dan Black follows, in Chapter Six, with insight into the way the Indonesian and Australian governments have established cooperative structures to enable them to work together on statistical data analysis. In essence, the Australian Bureau of Statistics (ABS) and the Indonesian Central Bureau of Statistics (BPS), work within the framework of their own Memorandum of Understanding, titled Memorandum of Understanding between the Australian Bureau of Statistics, Australia and the Central Bureau of Statistics of the Republic of Indonesia concerning cooperation in the field of statistics. Theirs is a particularly innovative arrangement for providing the statistical information, cross-nationally, required for solid economic relationships and investment to flourish. Also, without statistics, there would be no story. Black’s chapter is comprised almost entirely of a reproduction of that particular Memorandum of Understanding.

In Chapter Seven, Michael Potts’ involvement in the process of AIDA gives us valuable insight into how the intergovernmental structures surrounding AIDA support the relationship between the provinces of Eastern Indonesia and Australia and how they actually work. According to Potts, bilateral relationships operate along fairly informal lines. Historically, different sectoral areas within the AIDA framework have advanced to different levels.
Also, the economic aspect of the relationship is much more advanced in some areas than other areas and, of course, sectors such as the Timor Gap Treaty and Defence are much more formalised than those covered under the economic dimension of AIDA.

Under AIDA, the working groups are the basis for most economic activity. Much of the activity is driven by the business community, led by business and industry and by key government departments. At the helm of all of this is a Special Working Group whose task is to 'define' and to scope the proposal (AIDA) and to report to the two ministers, Mr Downer (Australia) and Mr Hartarto (Indonesia) – the Department of Foreign Affairs and Trade (DFAT) has an obviously important role in coordinating the processes.

Indeed, the Howard Government initiated a review of Australia’s overseas aid budget in mid 1996 – the first review since the Jackson Committee Report on Aid in 1984. Minister Downer established a Review Committee led by Paul Simons and including Cliff Walsh and Gaye Hart and, by late April 1997 their report, entitled One clear objective: poverty reduction through sustainable development had been published. Chapter Eight by Cliff Walsh is an informal account of the life of that Committee. He gives us his own considered opinions on how the Committee arrived at its recommendations and the principles that drive the future direction of Australian aid.

In Chapter Nine, Richard Mathews presents an overview of the Memoranda of Cooperation, and more recently the Memorandum of Understanding, signed by the Northern Territory since the mid 1980s. These cover education and government-to-government relations for stronger economic relations. The most significant MOU was, of course, the one signed in 1992 between the Northern Territory and Indonesia.

MOUs do not have the formal status of an international treaty although without the official sanctioning of the commonwealth government the MOUs between subnational government and foreign governments would be virtually useless. Mathews stresses the importance of research and the further development of regional profiles.
The Northern Territory was the first and only government in Australian to create a ministerial portfolio for Asian relations. That in itself remains highly symbolic of the Territory’s perception of its economic relations with it near neighbours to the north, which is the focus of Chapter Ten by the Hon. Eric Poole, Minister for Asian Relations, Trade & Industry. According to Mr Poole, growth in some sectional areas, such as cattle export and tourism, already exceed earlier forecasts. The impetus for growth stems from private enterprise combined with government incentives from both Indonesia and the Northern Territory and from commonwealth support for AIDA. A number of these incentives are outlined in the chapters that follow: for example, one area of cooperation between industry and government and which illustrates the depth of intergovernmental agreements is the Timor Gap Treaty. In Chapter Eleven Stuart Cave outlines the fundamental framework of the Treaty and sets out what he refers to as, the main sections of the Treaty: the Scope; the Zonal Designation; the Arrangements for Joint Regimes (including petroleum operations within a formal management structure) and; cooperative arrangements between the two regimes (Indonesia and Australia). One of the most important features of the Timor Gap Treaty is its ability to cope with cultural differences – a feature of the relationship that every participant has confronted – note for example, the title of Chris Bigg’s chapter Agreements and Sectors: Just Over the Horizon and a World Away.

Chris Bigg’s chapter on transport, followed by Chapter Thirteen by Ross Trevena on the Indonesian Mining, illustrate the work involved between the two countries, particularly in developing a sustainable base for the transfer of technologies and for valuing the social and economic exchange necessary for a healthy relationship. Both chapters highlight that the nature of investment is, to a large extent, contingent on establishing adequate infrastructure.

There is probably no one who is better equipped to test the formula required for developing infrastructure than Peter Carew. In Chapter Fourteen he provides an historical account of how a successful and relatively modern business managed to establish a market for itself in Eastern Indonesia – in spite of blunders by the
commonwealth government in its development policy (DIFF). Integrated Technical Services (ITS) has been operating in remote areas of the Eastern Indonesian Provinces for over a decade. For anyone wanting insight into doing business in Indonesia, this chapter is essential reading.

Overall, this volume offers advice and insight by experts in a range of fields and, as the concluding chapter by Geoff Forrester illustrates, the political, economic and social environment, against which this volume is set, needs to be understood if the relationship is to succeed. What has become clear is that AIDA has introduced a significant strategic episode into Australia-Indonesian relations and, as Forrester reminds us, AIDA is a window of opportunity for the Northern Territory – a chance to present itself as a viable region from where business and government can develop and secure a strong regional focus for the future.
ECONOMIC RELATIONS BETWEEN THE NORTHERN TERRITORY AND EASTERN INDONESIA

An Analytical Framework

HAL HILL

Introduction

One of the most important developments in the late twentieth century has been the increasingly porous nature of national boundaries in economic, if not always political, terms. 'Natural economic zones', as they are sometimes now described, are emerging the world over, driven by a number of factors: a more liberal global trading order, lower transport and communication costs, a rising sense of regional identity which sometimes transcends arbitrary national boundaries, and on occasion deliberate government initiative. These sub-national but cross-border zones raise important analytical and policy challenges in the way we view global, regional and bilateral relationships. Such zones are shaped by the broader set of international connections.

1 Hal Hill is Senior Fellow in Economics and Head of the Indonesia Project in the Research School of Pacific and Asian Studies, The Australian National University. This chapter is an extension of his conference presentation and includes helpful feedback and useful information provided by participants.
of which they are a part, but they also exhibit distinctive and highly diverse features which require a special understanding and framework of analysis.

It is useful to view the economic relationship between Eastern Indonesia\(^2\) and Australia's Northern Territory through such an analytical prism. The purpose of this paper is to provide an analytical and contextual framework for the examination of the EI-NT connections, as a backdrop to the more detailed studies which appear in this volume. Three such contextual elements are identified. The first concerns broader Australia-Indonesia economic ties. Natural economic zones can develop more intense commercial connections than is possible in a broader bilateral relationship. But the latter inevitably exerts a powerful influence. To take a worst-case scenario, for example, if the bilateral relationship were to deteriorate, then there would almost certainly be negative 'backwash' effects for more focused sub-national relationships. The second element of context concerns patterns of regional development in Indonesia. Indonesia is the world's most diverse archipelagic nation, and any analysis of relations with its whole or part needs to be based on an understanding of this diversity. A number of pertinent policy issues are addressed. These include the overall commercial policy environment in the two countries and likely future trends; the regional policy framework in Indonesia; and some general analytical and policy issues associated with sub-regional, cross-border economic zones. Finally, the focus shifts to the EI-NT relationship and offers some observations on the challenges and opportunities.

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2 Strictly speaking, the term 'Eastern Indonesia' is not used in Indonesia, owing to its unsavoury historical connotations. Terms such as 'Kawasan Timur Indonesia' or, until recently, 'Indonesia Bagian Timur' have been preferred. However, their English translation is awkward, and so for convenience the politically incorrect 'Eastern Indonesia' is used throughout this paper.
Context 1: Australia-Indonesia Economic Relations

Australia and Indonesia have a long-established, but somewhat chequered economic relationship. Although aptly regarded as 'neighbours forever', for much of their histories the two countries have behaved rather indifferently towards each other. In the words of Professor Heinz Arndt, both countries historically 'looked north' to Europe and North America. Both were part of different colonial empires. As resource-rich economies, and suppliers of raw materials to the industrialised OECD north, they were not highly complementary. Political indifference and commercial policy reinforced this weak economic relationship. In the quarter century from 1940, Indonesia was overwhelmed by war, the struggle for Independence, and the task of creating a modern nation state. Under President Sukarno, its economy deteriorated from the late 1950s, and in the first half of the 1960s it began to disengage from the world economy and institutions such as the United Nations and the World Bank. Australia over this period became one of the most inward-looking economies in the OECD, and was avowedly 'European' in its immigration program.

Things began to change in the 1960s. A new regime in Indonesia from 1966 began to address the country's daunting development problems by pursuing more orthodox economic policies. The country quickly opened up to the world economy, slashed impediments to trade, welcomed foreign investment, and sought to develop close ties with the international donor community. This coincided with a growing appreciation in Australia of the importance of Asia, which resulted in the gradual removal of its discriminatory immigration program, and a conscious, politically bi-partisan effort to forge closer economic, strategic and social ties with its northern neighbours.

Indeed, there was something of a 'second honeymoon' in the relationship from about 1967. Australia was active in the

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3 There is a large literature on this subject. A good overview, which also summarises much of the previous work, is EAAU (1994). See in particular the chapter by Arndt and Thee, 1994.

4 The first occurred in the late 1940s when the Australian government played a constructive role in Indonesia's Independence struggle.
establishment of the international donor consortium, IGGI (now CGI), trade in goods and services began to expand, and Australian companies made their first investment forays into the Indonesian market. This pattern of relations persisted for the next two decades, despite some politically-induced setbacks. However, a fundamental obstacle remained in that both countries continued to pursue policies which inhibited the growth of commercial relations. Australia failed to enact major economic reforms, while during the oil-boom period 1973–85 Indonesia adopted an increasingly ‘nationalist’ economic policy agenda which restricted foreign trade and investment. Unintentionally, in their trade policies both countries actually discriminated against some of the others’ major export interests. For example, Australia maintained high protection for its textile, clothing and footwear industries, while Indonesia erected barriers for many agricultural products and some metals-based processing activities.

It took major reforms in both countries to provide a further fillip to the economic relationship. The reforms had surprisingly similar origins – declining commodity prices and a realisation that the past inward-looking economic strategies would not generate high growth. Both countries began to reform, by lowering trade barriers, opening up their financial sectors, and introducing a range of deregulation measures. In both cases the reforms were unilateral in nature. They were designed to address national economic ills, and thus eschewed any bilateral or regional focus. But in the process of this more or less simultaneous opening up, the reforms built on powerful, yet hitherto unexploited, bilateral complementarities, which have provided the basis of the rapid expansion in bilateral merchandise trade over the past decade. In the late 1980s, bilateral relations began to improve again, enabling some creative diplomacy to build on, and reinforce, the broadening commercial ties.

Thus, for the first time, Indonesia became a major supplier to Australia of a range of labour-intensive manufactured products, including textiles, clothing, footwear, furniture, toys, and sporting

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5 Indeed, ironically, economic relations began to flourish at a time when political ties were distinctly cool, following Indonesian irritation with vocal Australian criticism over human rights issues and press criticism directed at President Suharto and his family’s business interests.
goods. In so doing, it emulated the pattern established by the Asian NIEs from the late 1960s onwards. In the other direction, Australian firms began to seize market opportunities in a wide range of agricultural products and industrial raw materials, together with specialist niche markets in high value added manufactures.6

Services trade has probably grown faster still. There are no reliable, disaggregated statistics, but casual observation underlines the importance of this trade, which has also been underpinned by a combination of complementarity, proximity, and unilateral reform. Indeed, proximity probably exerts a more powerful effect than is the case for merchandise trade, since most services trade requires that individuals move across international boundaries to deliver or receive them. This factor has obvious and special significance in the EI-NT relationship. There are numerous examples of this strong services growth. Australia has become the major supplier of tertiary education services to Indonesia, recently overtaking the US in this role. In this case, the reforms of Australia's higher education sector in the mid 1980s coincided with the rapid growth of an Indonesian middle class family able to send their children abroad. Two-way tourism has continued to grow rapidly, and a diverse array of business services are now exchanged.7 Foreign investment flows between the two countries have grown more slowly until recently, but they are now expanding rapidly.

Two additional features of the economic relationship deserve comment. The first is that the two countries' international commercial interests are now more evident that at any time in

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6 It is always important to view Australia-Indonesia trade in the context of the two countries aggregate trade flows. The trade flows look small in relation to both countries' trade with Japan, for example, for the obvious reason that Japan is a much larger trading nation. A convenient means of analyzing their trade is the 'intensity framework', which adjusts bilateral trade flows for each country's 'share of world trade' (see Drysdale and Garnaut, 1982). Australia-Indonesia trade is about twice what would be expected on the basis of such shares.

7 In the absence of reliable data on services trade, I am attracted to a crude but probably quite effective indicator of its magnitude, namely the number of weekly flights between the two countries. These have risen from less than 10 in the early 1980s to about 55 now.
history. With their rapidly internationalising economies, both have a much greater stake in the state of the global economy. International market access is critical to their export success. It is therefore not surprising that, notwithstanding significant differences, their views on what constitutes a desirable world commercial order are converging. In particular, both appreciate the importance of a set of institutions and rules of governance which are consistent with, and support, an open trading environment in which countries continue to liberalise on a unilateral basis and in which discriminatory regional trading associations are subsumed within such an order. Consistent with this outlook, both countries have been active founding members of the Asia Pacific Economic Cooperation (APEC) process.

Secondly, it is impossible to understake the significance of the broader implications of this growing commercial relationship. It provides the ‘ballast’ which fosters broad-based and durable ties across the spectrum of engagements. One only has to consider both countries’ post-war relations with Japan to understand the importance of this proposition. In both, hostility in the aftermath of the war gradually gave way to a deep and close relationship, initially driven by commercial interests but later embracing political, social and cultural ties. Such a base is extremely important in the Australia-Indonesia context. No two neighbouring countries could be more different. A set of deeply embedded relationships therefore provides the ‘durable constituency’ which ensures that the occasional tensions which will inevitably arise between two very different countries can be managed and contained.

Context 2: Regional Development in Indonesia

Indonesia is the world’s largest archipelagic state. No country exhibits greater regional diversity in its demography, economy, ecology, and history. National integrity is one of the central building blocks of the nation. It permeates official thinking to an extent that outsiders have difficulty comprehending. During the

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8 See the set of essays in Hill (1989) for a detailed profile and analysis of this regional diversity. Some of the issues discussed in this section are examined in more detail in Hill (1997).
struggle for Independence, the Dutch attempted a policy of 'divide and rule', which only deepened the resolve of Sukarno and other leaders of the revolution to establish a powerful and highly centralised unitary state. The attempted secessions of 1957–58 only strengthened their determination, as has, more recently, the disintegration of the former USSR and Yugoslavia. Indonesia's unwillingness to countenance any threat to this national integrity also explains what some in the international community regard – rightly or wrongly – as a certain intransigence on the question of some form of autonomy for East Timor.

In examining Indonesia's record of regional development, one immediately confronts a major paradox. Indonesia is a highly centralised regime, both in its civilian and its parallel military authority, and in the context of a heavily managed political system. Although there are elaborately developed mechanisms for consultation, in practice the system does not allow for any significant degree of grass roots participation from the daerah (regions). Yet Indonesia's record of regional development is superior to that of all of the giants of the third world, notably China, India, Brazil and Nigeria. In all four countries, regional inequality is very high and/or increasing. In Indonesia, despite a number of region-specific exogenous shocks (such as the 1970s oil boom), its heavily centralised administration, and the deregulation of the past decade, there has been no discernible increase in regional inequality during the past quarter century.

How may this paradox be explained? For reasons mentioned above, the Suharto regime has been fiscally generous to the regions. Law Number 5 of 1974 established a framework for regional development policy, and in the early stages of the oil boom the Jakarta government established a system of Presidential Grants (INPRES, Instruksi Presiden) through which funds were disbursed to the provinces and lower tiers of government. These programs have been maintained ever since and, except for the very difficult years 1985–87, their real value has increased. An increasing, though still comparatively small, proportion comes in the form of untied, 'block' grants. Moreover, a crude but quite effective system of fiscal equalisation has been in operation, especially as it affects the oil and gas rich provinces. This is
because natural resource rents flow primarily to the central government, which in turn disburses funds to all provinces at least partly through a needs-based formula.

The last 30 years have witnessed far-reaching and historic changes in Indonesia's regional landscape. In 1965, although the country functioned as a unitary state, it was hardly integrated in any economic sense. Physical infrastructure was in such a ramshackle state that Indonesia in the main functioned as a collection of only loosely connected local markets. Some of the outlying regions were better integrated with neighbouring countries than with the rest of the country. Smuggling to and from Singapore was rampant. By the 1990s, all this had changed. An extensive network of air, sea, land and rail transport reaches out to virtually all parts of the archipelago, supplemented by extensive telecommunication services. The major highways (Trans-Sumatra, Sulawesi, etc), in particular, are having a dramatic effect in connecting hitherto isolated localities to the national and global economy. People, goods, and ideas circulate around the archipelago to an unprecedented extent. For the first time in its history, Indonesia has achieved national economic integration.

It is important to note that the regional debate in Indonesia is changing. Historically, much of it was couched in terms of 'Malthusian' Java versus the more dynamic, 'frontier' Outer Islands. A large literature in the 1950s and 1960s focused on the seemingly hopeless situation in Java, with its 'agricultural involution' and deep-rooted poverty, in contrast to some of the more dynamic regions off-Java. Such thinking underpinned the massive transmigration program, which has existed in some form ever since 1905 but received much government and donor emphasis in the 1970s and early 1980s. However, by the late 1980s the regional emphasis had begun to change. Java-Bali have been a notable development success story since 1970, based on rapid growth in agriculture (especially food crops), light manufacturing, and a range of service industries. Especially since the President's January 1990 speech, the focus of concern has shifted from the Java-Outer Islands divide to that between the nation's east and west divide. Much of the regional development effort is now directed at the poorer and slower-growing eastern provinces.
Any discussion of Eastern Indonesia needs to be premised on two basic, interrelated facts. The first is that, as with the nation as a whole, this region is one of great diversity. The three provinces closest to Australia (East and West Nusa Tenggara and East Timor) are the nation's poorest according to standard economic indicators: per capita income there is about one-third of the national average and less than one-sixth that of the capital city province of Jakarta. In many respects, their economies are more akin to those of Bangladesh and Vietnam. If they were independent nations, their income per capita would be similar to these two. By contrast, other provinces (eg South Sulawesi) are much closer to East Asia in their growth and potential. Irian Jaya is perhaps a special case with its mining enclaves and the special challenges which derive from its unique historical and ethnic factors, and its border with Papua New Guinea.

The second fact is that there is no single, consistent definition of 'East'. Initially, it seemed to include only the five provinces east of Java-Sulawesi, that is, East and West Nusa Tenggara, East Timor, Maluku, and Irian Jaya. Sulawesi and then East Kalimantan were later added, making a total of 10 provinces. The current 'Kawasan Timur Indonesia (KTI)' definition now embraces all of Kalimantan, meaning some 13 out of the nation's 27 provinces, that is, all but Java, Sumatra and Bali. Including the resource-rich Kalimantan provinces, some of which have among the highest incomes per capita in the nation, stretches the concept to the point of incoherence, as they have little in common with a province like East Nusa Tenggara. To complicate matters still further, for some purposes, including the Australia Indonesia Development Area (AIDA), Bali is also included in the Eastern zone. In other words, 'East' is a rather flexible and ad hoc concept. It certainly will always include the original five provinces, but its precise composition will probably vary depending on development challenges and political circumstances.\(^9\)

\(^9\) Indeed, it became apparent in discussions with senior government officials in Jakarta in mid-1996 that the term 'East' is increasingly synonymous with the notion of 'less developed', in much the same way as 'South' was used in the global debates of the 1970s as an analytical, but not necessarily geographic, concept. Some policy-makers now speak of the poor southern Sumatran province of Bengkulu as 'East', for example.
Context 3: Policy Framework

This section introduces some key elements of the broader policy framework which are likely to shape EI-NT economic relations and consider in turn the overall commercial policy environment in the two countries, regional policy issues in Indonesia, and some analytical and policy lessons from the experience of other sub-national, cross-border economic zones in East Asia.

Trade and Internationalisation

Relationships such as EI-NT can prosper only if both Australia and Indonesia are committed to the maintenance of liberal, outward-looking trade regimes, and if the central governments signal their support for such arrangements. Without these key ingredients, cross-border economic cooperation would occur, but it would be sporadic, unstable, and small-scale. One only has to consider the experience of China’s coastal zones or, closer to home, SIJORI, to appreciate the importance of this proposition.

On this score, the prospects for the EI-NT partnership are encouraging. Following the 1980s reforms, an international economic orientation is quite well entrenched in both countries. There are exceptions, and unreformed parts of each economy which have proven resistant to change. But these are of relatively minor importance in the broader scheme of things. In both countries, also, there are criticisms of liberal commercial engagement, but the opposition is outside the political mainstream, and will probably remain so for the foreseeable future. Continued unilateral liberalisation is likely in the two countries, although it is unlikely to be at the heady pace of the 1980s.

Most major regional and global economic cooperation initiatives are consistent with this policy thrust. Both the WTO framework and open regionalism (a la APEC) enable sub-sets of countries to promulgate liberal economic reforms at a pace which is faster than is possible among larger groupings. The exception to this generalisation is that both Australia and Indonesia are members of discriminatory trading arrangements. That is, Indonesia is a signatory to the ASEAN Free Trade Area (AFTA), while Australia has its Closer Economic Relations (CER) agreement with New Zealand, and in addition offers the South
Pacific nations preferential access to its markets through the South Pacific Regional Trade Economic Cooperation Agreement (SPARTECA) agreement. AFTA, CER, and SPARTECA are discriminatory, in the sense that concessions are offered only to member countries, thus opening up the possibility of trade diversion. This is already happening in the case of the CER and SPARTECA. Under AFTA there is the potential for trade diversion, but it appears thus far not to be happening because the agreement is being unofficially implemented on a multilateral basis; that is, so far the AFTA liberalisations are being multilateralised. But in any case, the key point is that, as unilateral liberalisation proceeds in the Association of South East Asian Nations (ASEAN) and Australasia, the margins of preference implicit in these discriminatory arrangements will shrink to the point of near irrelevance. In these cases, also, therefore sub-national initiatives are unlikely to be adversely affected.

In such a framework, it is possible for unilateral, regional, bilateral, and sub-national initiatives to proceed in tandem. The direction of the first three in the past decade therefore encourages and reinforces a variety of natural economic zones and cooperation, such as EI-NT. In the process of removing commercial irritants at the border, national boundaries become increasingly unimportant, thus allowing market forces to fundamentally direct economic activities.

**Regional Policy in Indonesia**

As noted above, Indonesia’s regional policy framework is highly centralised. Provincial, ‘Dati II’ (kabupaten and kotamadya), kecamatan, and village administrations all operate as organs of the central government with very little room to manoeuvre. There is virtually no fiscal autonomy, and even relatively minor administrative matters require central government approval. It is widely recognised that, notwithstanding impressive outcomes to date, this highly centralised policy regime is becoming increasingly unworkable and is in urgent need of reform. The Rakorbang consultative process of allocating the regional budget, which in principle involves all tiers of government from the village administration upwards, is becoming extremely cumbersome and unworkable.
However, notwithstanding much public debate and discussion, there have been no major policy initiatives since Law Number 5 of 1974, which as noted above established the New Order’s basic policy framework on regional policy. A top-down approach was probably necessary, indeed inevitable, 25 years ago when local level capacities were weak, and as a means of distributing rapidly increasing aid flows, and later oil revenues, on a reasonably equitable and coherent basis. But the economy has expanded by some six-fold during the New Order period, and it is infinitely more complex. Moreover, local capacities are now much improved, while in the post-oil era the central government’s fiscal position is somewhat more constrained than it was during the 1970s.

Admittedly, there have been a number of changes since 1974. These include:

- Shipping and customs deregulation were promulgated in the mid 1980s, enabling the regions outside Jakarta to trade directly with overseas markets.
- The INPRES scheme has expanded dramatically, and as noted an increasing – though still small – proportion takes the form of ‘block grants’.
- The foreign investment approval regime has become a little less centralised, so that regional bodies can play some role in soliciting and encouraging investment projects.
- There was an attempt during the authority of the previous Minister of the Interior (General Rudini) to elevate the role of the ‘Dati II’ governments as the primary regional point of contact for the central government; however, the current Minister does not appear to favour such an approach, which now seems to lie dormant.
- An experiment currently being undertaken, known as the daerah percontohan, is supposed to ascertain the best means of devolution and decentralisation, though it is unclear how, if at all, implementation will proceed.
- There are in addition various Eastern Indonesia initiatives involving high-level inputs (such as Professor Habibie’s Council), and frequent exhortations for business groups to invest in the region.

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Yet none of these measures amounts to anything like a major overhaul. The slow progress may be attributed to a number of factors. There is a genuine concern that decentralisation may lead to widening regional inequalities and tensions. The bureaucratic politics of the centre undoubtedly inhibits the process, especially as those in major government departments are on the whole reluctant to relinquish their authority. There is also, simply, the sheer complexity of introducing reform into a system in which all parties have been accustomed for so long to centralised authority.

Any discussion of relations with Indonesia needs to be aware of this highly centralised structure, and alert to the possibility, and implications, of major reforms. These comments apply with particular force to relations with sub-regions. Even politically powerful regions have limited scope for forging independent relations with foreign countries and regions. For Eastern Indonesia, comparatively powerless in a political sense and somewhat neglected by the centre, its international relations will certainly have to receive the Jakarta imprimatur.

**Sub-National Initiatives**

It is useful finally, to consider the experience of other instances of cross-border, sub-national cooperation. These arrangements are blossoming in the Western Pacific, and as a relative late-comer the EI-NT initiative can learn from them. Although the most developed zones are located along coastal China, they are now proliferating in South East Asia. Only the Singapore-based SIJORI could be regarded as fully functional. However, others are in various stages of implementation and conceptual development. These include the Northern ASEAN Growth Area (northern Peninsula Malaysia, Southern Thailand, and northern Sumatra), and the BIMP-EAGA (involving Brunei, Sulawesi, Sabah, and Mindanao). Two more recent initiatives involve countries from outside South East Asian. These are the Greater Mekong Zone, which embraces the five mainland South East Asian states together with the southern China province of Yunnan, and the AIDA.

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10 Useful analyses of the South East Asian zones include Lee (1992) and EAAU (1995).
Economists usually regard these initiatives – like export processing zones – as in the realm of the 'second-best'. If there is a case for liberalisation, why not offer the reforms on a unilateral basis, rather than just for one other country or region? This would enable the cross-border zones to flourish without imposing artificial restrictions on the geographic scope of the reforms. Perhaps there is a case for such initiatives as transitional reforms if unilateral liberalisation is not considered to be politically feasible. Then, as the reforms proceed, the special but artificial appeal of these zones will disappear.

Of course, this is not to argue that trans-border cooperation should not be encouraged. It obviously should be, as a means of facilitating the coordination of physical infrastructure across international boundaries, where previously national systems were not so integrated.\textsuperscript{11} Moreover, of particular relevance to Eastern Indonesia and the BIMP-EAGA initiative, these zones might be regarded as a means of attracting government and business resources to hitherto poor and neglected regions.

However, it is important to keep in mind the fundamental lesson from these zones, which is that the really successful ones, such as SIJORI and coastal China, are market-driven. Governments play an important role in providing a framework for exploiting two or more countries' (and/or regions') complementarity. Proximity and relative factor endowments – the latter as reflected in land and labour costs – are the principal engines of growth. Where much larger distances are involved, such as EI-NT, and where the difference in factor endowments across international boundaries is not so great, as in BIMP-EAGA, the gains from such initiatives are likely to be correspondingly smaller. There is obviously a case for removing barriers to trade at the borders, and for measures which foster harmony and close economic relations among communities straddling international boundaries. However, if large investments are required (for example, in physical infrastructure), caution is obviously necessary to ensure that reasonable rates of return are in prospect.

\textsuperscript{11} An analogy here from within a country might be Australia's adoption of a uniform national rail grid in place of the myriad state standards.
Specifics: EI-NT relations – opportunities and challenges

This section draws together the discussion from the preceding sections and offers some general observations on the challenges and opportunities presented by the EI-NT relationship. These comments should be seen against the backdrop of the more detailed chapters which follow.

Opportunities

The EI-NT relationship is important at a number of levels. At its most basic, it matters a great deal to the people who live in this region, as it affects their lives, and their livelihood. In both countries, these are regions which are far from the national centres of governance and commerce. There is an understandable sense of neglect on both sides of the Arafura. The forging of independent commercial, social and political ties beyond national boundaries is an important achievement for the two parties. In addition, there are national dimensions which enhance the importance of the relationship. The symbolism of two regions, belonging to such very different countries, developing harmonious, broad-based contacts is highly significant. It is appreciated by the national polities of both countries. Undoubtedly, the Northern Territory gains access and recognition far beyond its size through its creative and far-sighted commitment to relations with Indonesia. The teaching of Bahasa Indonesia in Northern Territory schools is highly appreciated in Indonesia. To my knowledge, Indonesia has not signed an MOU with any sub-national entity other than the Northern Territory. The Chief Minister can reasonably expect on official visits to Indonesia an audience with the President of a country with a population more than 1000 times that of the Territory.

In addition to this symbolism, there is much of substance in the relationship and potential for further commercial enmeshment. Building on the advantages of proximity, local knowledge and contacts, and a developing on-the-ground presence, there are obvious areas of strong complementarity between the two regions. A number of these are detailed in the chapters which follow. Merchandise trade is expanding rapidly, driven principally by live cattle exports from the Northern
Territory. This growth exemplifies the importance of comparative advantage, liberalisation, and proximity in underpinning the relationship. Indonesia's demand for beef is growing strongly, rapid industrialisation is intensifying its comparative disadvantage in livestock production, and over the past decade market access has been improved.

Services trade probably has even greater potential, given the fact that proximity confers special advantages. The Northern Territory is well-placed to provide high value added services to Indonesia in the areas of education, health, dry-land tropical agriculture (including agricultural processing) and a range of business services. Much progress has already been made, but there is scope for further expansion in virtually all fields. For example, the Northern Territory University, which already has a well-established research program on South East Asia, could probably extend its presence in Indonesia. One possibility, advocated some years ago by Professor Helen Hughes, might be to market a 'Foundation Year' for Indonesian secondary school graduates, which could serve as a bridge to full university study in Australia.

Other areas of potential include the mining and tourism industries. Most of the major mining projects in Indonesia are located in the eastern provinces (especially using the elastic KTI definition). Some of these, notably in the Timor Gap, Freeport in Irian Jaya and the new Sumbawa mine, are reasonably close to Darwin, which is well placed to offer specialist ancillary support services, and a recreational centre for expatriate staff. Darwin's excellent international transport infrastructure can support the rapid growth of tourism. Joint venture tourism promotions in Europe, North America and Japan marketing as a package the diverse attractions of both the Northern Territory and Indonesia hold much potential.

More generally, Eastern Indonesia is an area of enormous growth potential. Its population of (depending on definitions) 35–50 million people is growing rapidly by Indonesian standards and will double by about the year 2025. Much of it remains poorer than the national average, necessitating a continued large development assistance presence for many years to come. Indeed, this will be the case even as the richer western provinces
'graduate' from such assistance. Australia's north is well-qualified to play a major role in this development process, building on its extensive knowledge and contacts in the region. The Australian program, with its established eastern focus (which is likely to be further strengthened following the recently released Simons report), provides the most obvious opportunity for the Northern Territory. But as other donors switch their emphasis to this region, and begin to untie their programs, there is scope for much broader Northern Territory participation in international development programs.

Challenges
So much for the opportunities. What of the constraints and challenges? A number of considerations seem pertinent and are raised not to cast doubt on the significance of the EI-NT relationship, but to argue that it is important to maintain a sense of proportion and scale in assessing future prospects. Expectations on both sides need to be tempered by realism. If they are set unrealistically high, and grand plans are not subsequently realised, a sense of disappointment may follow which could permanently injure the relationship.

Both Eastern Indonesia and the Northern Territory are by national standards small and lightly settled economies. They have to confront creatively the inevitability of what is sometimes, perhaps unkindly, referred to as the '1% versus 3%' equation.\(^\text{12}\) As this paper has argued, there is much potential in the relationship, but it will always be modest in size. Both regional economies are small in the national picture. They are far from the centres of national commerce and political power. They are, moreover, especially at mercy of central governments. This arises not only, as in the Indonesian case, because of a highly centralised system of governance, but also because they are heavily subsidised by central governments. That is, both regions receive above-average financial grants on a per capita basis.

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\(^\text{12}\) This refers to the fact that the Northern Territory is about 1% of Australia's population and economy (though its export share is much higher), and that the three immediately adjacent Indonesian provinces constitute about 3% of Indonesian GDP. Of course, in the various broader definitions the Eastern Indonesia share is much higher.
It is sometimes argued that EI-NT relations will flourish partly on the basis of Darwin’s ‘gateway’ role as a conduit for Australia-Indonesia trade. Much depends here on whether the long-discussed Darwin-Alice Springs railway line is ever constructed, thus connecting Darwin to Adelaide and the national rail grid. Such a view is superficially attractive given Darwin’s excellent international port, and the fact that Indonesian shipping services are becoming less Jakarta- (and even Surabaya-) centric. But it is not obvious that this gateway role will ever amount to much, either for goods or people. Even if the railway is constructed – and that will depend on political as much as commercial considerations – it is my impression that the economics of transshipment is such that direct shipments (for example, linking Jakarta with south eastern Australia) would probably still be preferred in most cases.13

There is the broader question for Australian governments, in both Canberra and Darwin, of what emphasis should be placed on regional, as distinct from nation-wide, ties in the relationship with Indonesia. There is, appropriately, a widespread recognition in Australia, and especially in the Northern Territory, of the importance of Eastern Indonesia, on humanitarian, strategic and commercial grounds. But given that governments have limited diplomatic and promotional resources, what should the balance be between national and regional priorities? Is there not actually a danger of excessive focus on Eastern Indonesia, to the detriment of the broader relationship? After all, Java-Sumatra is the commercial and political heartland of Indonesia, and Australia may in some sense find itself ‘shut out’ of developments in Indonesia’s dynamic western region through a strategy which focuses too much on the east. There is also caution – indeed resistance – in some Australian policy circles to the notion that Australia has any ‘special responsibility’ towards Eastern Indonesia.

There is another reason for deliberately eschewing a very focused Eastern Indonesia strategy. It relates to the earlier

13 This observation relates back to the earlier argument concerning the danger that politicians, eager to promote growth regions which only weakly qualify for the description of ‘natural economic zones’, may be tempted to promote large joint infrastructure projects of doubtful viability.
discussion of the definition of Eastern Indonesia, which is an elastic and fluid concept. The official definition, and emphasis, has changed over the past decade, and it may alter again. A major challenge for the Northern Territory will be to develop a strategy which is sensitive to these changes, and to the political currents which are driving them. Indonesia’s Eastern Indonesia policies will continue to evolve, and new bureaucratic forces shaping these policies will emerge in the coming decade. The Northern Territory government needs to ensure that it is not wedded to one particular view of the Northern Territory, nor to just one interest group in Indonesia. Moreover, other parts of Australia’s north and west are rapidly developing their relations with the Asia-Pacific region. For example, the much larger Western Australian economy has very strong ties with Indonesia. The Northern Territory initiatives should be seen as part of this broader picture, especially as Australia’s competitive federalist system still causes some confusion in highly centralist Indonesia.

Thus Australia, and in particular the Northern Territory, has a delicate balancing act here. There are powerful grounds for paying special attention to Eastern Indonesia, but these should be seen as complementary to, and not competing against, the broader bilateral relationship. My impression is that, thus far, the balance is about right in both the Northern Territory and the national case. For example, the Northern Territory MOU is, appropriately in my view, with the national government. Its most buoyant export – live cattle – goes mainly to Western Indonesian markets, while the exciting joint venture prospects in tourism centre on Bali, which is not formally part of Eastern Indonesia. In seeking to promote closer ties with Eastern Indonesia, it will always be important to maintain this broader perspective on the relationship.
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Brief History of the Memorandum of Understanding

On January 21, 1992, a Memorandum of Understanding (MOU) between Indonesia and the Northern Territory was signed by the then Chief Minister of the Northern Territory, the Hon. Marshall Perron and the Foreign Minister of the Republic of Indonesia, HE Mr Ali Alatas. The Agreement was the result of years of hard work, the Northern Territory Government has put behind, in its effort to foster closer relations with its closest neighbour, Indonesia, in particular the Eastern Provinces. The MOU is also backed by various key ministers in Jakarta and is the only document of its kind signed between a sub-national government of Australia with the national government of Indonesia. The purpose of the MOU is to promote mutually beneficial economic development between the eastern part of Indonesia and the Northern Territory of Australia, and to recognise the strategic importance of the relationship between the two parties while recognising their strong cultural and social ties.

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1 Dr Seda is Co-Chairperson of the Australia Indonesia Memorandum of Understanding.
To implement the MOU a six member Joint Policy Committee (JPC) was established, comprised of three officials from the Northern Territory, appointed by the Chief Minister, and three officials from Indonesia, appointed by the Indonesian Foreign Minister and Co-chaired by Professor Dr Stephen Fitzgerald and myself.

The Strategic Directions of the Joint Policy Committee

**Mission**
To optimise the conditions for private investment leading to trade and the growth of commerce in the region comprising the eastern provinces of Indonesia and the Northern Territory of Australia by the provision of advice, and through the facilitation of government and inter-government services.

**Objectives**
Generally, the (JPC) will:
- achieve the purpose of the MOU between the Republic of Indonesia and the Northern Territory of Australia;
- achieve respect within the public and private sectors in both the Republic of Indonesia and Australia, particularly with organisations such as development planning authorities, government appointed councils, ie chambers of commerce and other organisations with complementary or overlapping responsibilities; and
- foster cultural and social ties.

Specifically, the JPC will:
- identify through consultation and cooperative research, those physical, human and policy structures which critically inhibit economic development in the competitive development environment, and provide advice on the steps necessary to remediate those deficiencies;
- establish by consultation and cooperative research, those industries with the greatest potential to make a significant economic impact on the region in the short to medium term;
- maintain favourable working relationships with the Australian Government and the Australian states so that the benefits of
the MOU are shared and the wider resources of Australia are deployed to enhance regional development outcomes;

• maintain trusted relationships with each of the provinces of the eastern part of Indonesia and the Government of the Republic of Indonesia in contributing to the development of the region;

• monitor those policies and services that determine the quality of the relationship of the region in wider trading opportunities, especially with the East ASEAN Growth Area (EAGA); and

• facilitate the formation of industry specific working parties and consortia to further objectives of the JPC in priority areas of development.

Priority Areas of Cooperation

The initial work of the JPC in its consultations with the provinces has identified the following areas of cooperation as the most critical in the development of the region. These priorities cover both the infrastructural deficiencies and those industries of greatest commercial importance in the medium term.

• Education and training
• Communications and transport infrastructure
• Energy services
• Tourism
• Cattle
• Fisheries
• Health and medical services

To implement JPC's directions, two important steps have been taken by the JPC.

• Socialising of the MOU
• Setting up a workable infrastructure

To socialise the MOU, visits, meetings and seminars have been held in various provinces of Eastern Indonesia and in various states of Australia. Contacts have been made, not only with the local/state Governments but in particular with the private sector. Working parties have been set up by the governments in the provinces and in the Northern Territory, at the request of the JPC as a form of infrastructure. The working parties consist of local
government and the private sector. They monitor possible cooperations for investment and trade at a provincial level and report to the JPC with recommendations for further implementation.

The Eastern Provinces

Originally the Eastern Provinces consisted of nine provinces, east of what is termed the Wallace-line.

1. North Sulawesi
2. Central Sulawesi
3. South-East Sulawesi
4. South Sulawesi
5. West Nusa Tenggara
6. East Nusa Tenggara
7. East Timor
8. Irian Jaya
9. Maluku

The four Provinces of Kalimantan (East Kalimantan, Central Kalimantan, South Kalimantan and West Kalimantan) have been included at the suggestion of the Department of Finance, using the level of development as criteria. This takes the total of Eastern Provinces to thirteen.

Achievements Under the Memorandum of Understanding

When the MOU was signed in January 1992, the Government of the Northern Territory set out to achieve a number of objectives. These have all been reached with one exception – establishment of an activated carbon plant. Efforts continue in this area although it is now recognised that alternative strategies will have to be implemented. However, the shipping services are in place, the cattle trade is well established, a trading house has been set up and a Trade Zone Partnership is developing. In addition, technology transfer and training are being supplied and investment in manufacturing plant and construction equipment has been undertaken.
Achievements under the framework of the MOU between the Northern Territory and Indonesia over the last two years include the following.

**Shipping Services**
A shipping service from Darwin to Kupang and Ujung Pandang with inter-island links to major ports in *Kawasan Timur Indonesia* (KTI) was established by Perkins Shipping in 1993/1994. It ceased because insufficient trade was developed to support its operations. Also, it was heavily subsidised by the Northern Territory Government. However, shipping services are vital and ways to mobilise operations should be found, perhaps in the broader context of the EAGA region.

**Investment**
Investment from the Northern Territory has occurred in South Sulawesi, Irian Jaya, Nusa Tenggara Barat and Nusa Tenggara Timur. This investment has been in machinery, factory development, commercial properties, construction and plant and equipment and office equipment. Further investment is expected in the shape of tourism facilities and air services.

Indonesian investment in the Northern Territory has generally been in the form of cattle, property and commercial building purchases.

**Trading House**
Studies and surveys have been made for the establishment of a Trading House in Darwin. Some major companies have shown their interest.

**Timber Products and Furniture**
Timber products, furniture and furnishing products are increasingly being shipped through Darwin to markets in southern Australia. These products are both for the domestic market and for re-export to markets in New Zealand, Canada and the United States of America.

**Education Services**
Technical, vocational and secondary education services are being provided to large numbers of schools (over 50) in five provinces of KTI through management of a A$20m development assistance project. These services are playing a major role in the provision of the skilled manpower required of KTI development. Small but
increasing numbers of Indonesian students are enrolling in Territory education institutions on a private basis.

Health Services
Reconstructive surgery clinics for victims of accidents and sufferers of leprosy have been conducted in Nusa Tenggara Timur (NTT) and Timor Timur provinces. A sister hospital relationship has been developed between So'e in Nusa Timur and the Royal Darwin Hospital. Research links in tropical medicine are being developed between NTT and the Menzies School of Health Research. There are activities proposed for the development of telemedicine services to the province of Bali.

Technology Transfer
Solar and alternative energy technology has been successfully introduced in NTT province, backed up by appropriate training. An alternative energy project on the Island of Flores to ensure a more efficient and reliable power supply is under discussion.

Cattle
Increasing quantities of cattle are being shipped to KTI. The bulk of the cattle are destined for the domestic meat market. Breeder cattle are also being shipped to assist with the development of the national herd in KTI.

Infrastructure Projects
The Northern Territory Power and Water Authority is involved in a $25m project to provide the Island of Flores with a reticulated water supply system. This will be complemented by the alternative energy pilot project mentioned above. Northern Territory companies have shown their interest in the provision of heavy equipment for road construction in the provinces of Nusa Tenggara Barat (NTB) and Sulawesi Tenggara.

Air Transport
A Darwin based private airline has started a schedule passenger service from Darwin to Mataram/West Nusa Tenggara with the eventual objective of connecting with the East ASEAN regional airline network. This service has been suspended for the time being.
Ecotourism
Approaches are made for a study in ecotourism, which is a potential field for joint ventures between private enterprises in both regions.

Business Communications
The Provincial Working Parties established to implement activities under the MOU communicate through a quarterly bilingual newsletter. Territory Business magazine also published quarterly, provides attractive bilingual articles on business developments and opportunities in the Northern Territory/Tenggara.

Northern Territory Working Party
This has been reformed under the leadership of the Northern Territory Chamber of Commerce and Industry and is now driven by private enterprise.

Trade Zone Partnership
The Trade Zone Partnership was agreed and signed between the Trade Development Zone in Darwin and the Makassar Industrial Estate in Ujung Pandang, South Sulawesi. A report has been recently completed recommending ways of strengthening the partnership and attracting further investment to the respective zones.

The Darwin Committee
The achievements under the MOU have been recognised by the Australian Federal Government which has set up a high powered committee (The Darwin Committee) to examine ways in which Darwin can become a major commercial centre serving as Australia's trade and cultural gateway to the Asian region (and the Asian region's gateway to southern Australia). The Darwin Committee was headed by Neville Wran, former premier of New South Wales, and the recommendations of the Committee have been widely publicised.

ASEAN Growth Areas
The achievements of northern Australia in developing trade with the region have also been recognised by the Regional Governments of East Indonesia, East Malaysia and the Southern Philippines, as well as the Government of Brunei. As a result
there is considerable interest in northern Australia’s involvement in the development of the East ASEAN growth areas.

Indonesian Perspective

As this brief history illustrates, the purpose of the MOU is to capitalise on the existing historical, cultural, social and political ties and also to strengthen technical/economic assistance between the Northern Territory and the eastern part of Indonesia. Overall, the aim is to create a broadbased relationship of economic development between those two regions.

The focus of the MOU is economic development in Eastern Indonesia. An economic development cooperation between neighbouring subregions by:

- making use of the Northern Territory’s advanced industrial, entrepreneurial, capital and technological expertise;
- making Darwin the gateway for Eastern Indonesian products to the Northern Territory, to Australia and to the world market and to make Darwin the supply base for commodities and capital goods needed for the development of Eastern Indonesia;
- ensuring that the MOU is the starting point for an overall Australian involvement in the economic development of Eastern Indonesia. From the Indonesian perspective this MOU is open within the framework of open regionalism.

The MOU Regime’s Most Strategic Developments Since 1992

During the ‘regime’ of the MOU, the following strategic developments have occurred.

- At the end of the first year of the MOU (1992), the Indonesian Government established the Presidential Council for the development of Eastern Indonesia (Dewan Pengembangan Kawasan Timur Indonesia – Dewan KTI). The Department of Asian Relations, Trade & Industry (DARTI) has established a close and continuous relationship with the Secretariat of the Dewan KTI. In the JPC meetings, this Council has always been represented beside representatives of the National Planning
Board, Ministry of Foreign Affairs and Home Affairs. I will elaborate more later on this Council.

- On 26 March 1994 the BIMP-EAGA (Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area) was established. It is a subregional economic development cooperation area, promoted by the four member Governments of ASEAN and acts as a framework for subregional economic development and cooperation based on private business activities. The Northern Territory is actively involved as the only non ASEAN member in the establishment and in the business activities of the East ASEAN Growth Area (EAGA).

- On 11 December 1989 the Timor Gap Agreement was signed to develop jointly the oil resources in the Timor Sea. This agreement should now be worked out in the spirit, the vision, and the mission of the MOU, to play a strategic role in the development of Australia–Indonesia Development Area (AIDA). The Government of Indonesia and the Government of Australia are developing the AIDA cooperation. The experiences, experiments and studies during these five years of the MOU – Republic of Indonesia/Northern Territory are useful and fruitful in setting up AIDA’s framework of policies and mechanism, because the principles on which AIDA is based are exactly the same as the principles of the MOU between the Republic of Indonesia and the Northern Territory.

- The Indonesian Government has confirmed its commitment to develop the Eastern Provinces, by establishing a Presidential Council for the Development of the Eastern Provinces (KTI) in 1993. The Presidential Council is headed by the President himself, but the day to day operations are left to Prof Dr Habibie, Minister for Research and Technology, who acts as the Executive Chairman.

The Council has 13 ministers as members, among them:
- State Minister/Head of the National Planning Agency
- Minister of Home Affairs
- Minister of Finance
- Minister of Public Works
- Minister of Transportation
- Minister of Agriculture
Minister of Industries and Trade  
Minister of Mines and Energy  
Minister of Tourism, Post and Telecommunication  
State Minister for Investment  
Minister of Defence and Security  

The Executive Chairman is assisted by an Advisory Team, of which I am a member. Besides the Advisory Team, the Executive Chairman is also assisted by working groups on development of Human Resources and Technology, Infrastructure, Natural Resources and Environment. The Council is responsible for outlining policies, strategic planning and acceleration of the development of the Eastern Provinces. The Eastern Provinces, better known as Kawasan Timur Indonesia (KTI), consist of 13 provinces.

1. West Nusa Tenggara  
2. East Nusa Tenggara  
3. East Timor  
4. Irian Jaya  
5. Mollucas  
6. North Sulawesi  
7. Central Sulawesi  
8. South Sulawesi  
9. South East Sulawesi  
10. East Kalimantan  
11. South Kalimantan  
12. Central Kalimantan  
13. West Kalimantan  

After meeting with the Governors of the 13 provinces, in which they outlined their wishes on the development of their provinces, the Council decided to set up selected areas for development in accordance with the strong points of the various provinces. The Council is aware that, based on the fact that only 15% of investments are in the Eastern Provinces, of which only 8.3% are foreign investments, special incentives must be given to prospective investors. The Government is also aware, that lack of skilled labour and inadequate infrastructures require high cost investments, which are not necessarily attractive to prospective investors. Incentives such as tax relaxation, cross subsidies and
setting up branches of the National Investment Board at district level (Kabupaten) are seen as necessary to attract foreign investors (see Attachment 1). The selected areas in the 13 provinces are:

1. Biak (Irian Jaya)
2. Ceram (Mollucas)
3. Betano-Natarbora-Viqueque (East Timor)
4. Mbay (East Nusa Tenggara)
5. Bima (West Nusa Tenggara)
6. Manado-Bitung (North Sulawesi)
7. Batui (Central Sulawesi)
8. Buton-Kolaka-Kendari (South-East Sulawesi)
9. Pare-Pare (South Sulawesi)
10. DAS Kahayan – Kapuas – Barito (Central Kalimantan)
11. Samarinda – Sanga-Sanga – Muara Jawa – Balikpapan (East Kalimantan)
12. Satui – Kusar – Kelumpang – Batu Licin – Pulau Laut (South Kalimantan)
13. Sanggau (West Kalimantan)

Conclusion

Cooperation between the Northern Territory and the Kawasan Timur Indonesia under the terms of the Memorandum of Understanding, has created the environment for a new area of economic relationship based on friendship and mutual respect and benefits not only the eastern part of Indonesia and the Northern Territory, but also the Republic of Indonesia and Australia. It has paved the way for the creation and development of AIDA. The MOU between the Republic of Indonesia and the Northern Territory has put the eastern provinces of Indonesia on the map of the Australian business community and Australian households and has put Australia in the minds of the people of the eastern provinces of Indonesia.
Attachment 1

Generally applicable investment facilities and special facilities for those locating in Eastern Indonesia

A. General facilities applicable for both domestic (PMDN) and foreign (PMA) investment activities.
   1. 100% exemption from Import Duty for the import of essential machinery/equipment.
   2. 50% reduction in Import Duty for the import of supporting machinery/equipment.
   3. Exemption from payment of Value Added Tax (PPN) and Luxury Goods Sales Tax (Ppn BM) for the import of machinery/equipment.
   4. Exemption/reduction in Import Duty for the import of raw materials for production activities for 2 years:
      a. For tariffs up to 5%, 100% exemption from Import Duty;
      b. For tariffs greater than 5%, 50% reduction in Import Duty.
   5. 100% exemption from Import Duty for the import of raw materials for export production.

B. Special facilities for specific industries.
   1. Income Tax liabilities on income received or obtained from a newly established company and on payment of dividends to overseas, will be borne by the Government for a maximum period of 10 (ten) years.
   2. If a company can complete the construction of its project in less than 5 (five) years, the time savings will be considered as an extension of time for the facilities.
3. For companies established outside Java and Bali, the time period can be extended for an additional 2 (two) years.

4. Specific industries are those nominated by the President on the recommendation of the Research Team on the Granting of Taxation Facilities to Specific Industries.

C. Special facilities for investment activities located in Eastern Indonesia.
   1. 50% reduction in payment of Land and Building Tax (PBB) for 8 years from the time of obtaining title to the land.
   2. Flexibility in the use of foreign labour.

D. Special taxation facilities for investment activities located in the Integrated Economic Development Regions (Kapets) (one Kapet will be developed in each province in Eastern Indonesia).
   1. No collection of Value Added Tax (PPN) and Luxury Goods Sales Tax (PPn BM) on:
      a. Import of capital items and other equipment directly related to productive capacity;
      b. Transfer of Taxable Goods for further processing:
         • from businesses outside the Kapet to businesses inside the Kapet;
         • between businesses in the same Kapet or between different Kapets;
         • between Kapet businesses and Bonded Zones outside a Kapet, or by Kapet businesses to business in other Customs Regions for further processing with the resulting products then transferred back to the Kapet.
   2. Exemption from Income Tax, Part 22, for the import of capital items and other equipment directly related to production activities.
   3. Accelerated depreciation and amortisation for income tax purposes.
   4. Loss compensation in the area of income tax for a maximum of 10 years.
5. 50% reduction in Income Tax, Part 26, on dividends
6. Deductions as production costs:
   a. Fringe benefits enjoyed by employees and not forming part of the income of employees;
   b. Construction and development costs of local infrastructure that is public in nature.

Apart from the taxation facilities specified above, businesses undertaking business activities in a Kapet are also offered assistance in the form of administrative help and obtaining permits.

Office of the Minister of State for the Mobilisation of Investment Funds/Investment Coordination Board
The Northern Territory of Australia’s Memorandum of Understanding (MOU) with Indonesia was signed on 22 January 1992 in Jakarta.

Signed, by the then Chief Minister, the Hon Marshall Perron, MLA and the Indonesian Foreign Minister Ali Alatas, the MOU was a culmination of many years of contact between Northern Australia and Eastern Indonesia. It was also the culmination of developments initiated by the Northern Territory Government since the advent of self-government in 1978.

The MOU marked the formal recognition by both the Northern Territory Government and the Government of Eastern Indonesia that the long term future of northern Australia lies in developing and maintaining political and economic ties between Australia and Indonesia. While the MOU was signed with the Indonesian Government, it was clear that it would focus in a non-exclusive way on Eastern Indonesia.

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Government – Business Relations Between Eastern Indonesia and the Northern Territory

In viewing the MOU from an Australian perspective it will be my contention that the document has been of considerable benefit to the Northern Territory, not only in direct economic and commercial terms but also in cultural, strategic and political terms.

My focus is more on the economic rather than the social and cultural aspects of the MOU. This does not imply that the non-economic aspects of the MOU are less significant, only that in my capacity as Principal Adviser to the Department of Asian Relations, Trade and Industry (DARTI), the economic aspects of the areas of the MOU are of particular interest.

The Northern Territory and the Eastern Provinces of Indonesia

For a long time the Northern Territory Government has been alert to the strategic and economic benefits of developing closer relations with the region, and with Indonesia in particular – long before it was popular to talk about Australia's 'engagement' with Asia.

The MOU itself is a distinctive document – it is the only formal agreement that the Government of Indonesia has struck with a regional, rather than national government. It is also distinctive in that it recognises Australia has a particular interest in Eastern Indonesia. The accuracy of this is now being borne out by the creation in October last year of AIDA – the Australia-Indonesia Development Area by Foreign Minister Downer and the Indonesian Coordinating Minister for Production and Distribution, Ir Hartarto. AIDA recognises something that the Northern Territory has been saying for years – Australia has a distinctive and major role to play in South East Asia's regional development.

Aside from its geographical coverage, the MOU between the Northern Territory and Indonesia focuses on a number of areas of activity. These include trade, investments, cultural, sporting and educational contact. The development of trade between the Northern Territory and Eastern Indonesia in the five years since the MOU has been signed has been striking. If we include energy and mineral exports, then the growth has been both significant
and volatile. If we exclude the energy and mineral exports then the growth has been both substantial and consistent.

Trade Figures 1992-96

The growth in overall trade reflects this trend, although it can be seen that in terms of imports from Indonesia, while the growth has been steady it has been altogether less substantial over the past five years.

Of course, it is always possible to suggest that much of this growth has been coincidental and that there is no cause or connection between the growth in the trade and the signing of the MOU in 1992. I do not propose to enter into consideration of a 'classic' counter factual hypothesis such as, for instance what could have been the growth of trade if no MOU had been signed. I can see no value in this kind of speculation, interesting as it may be. It more properly belongs to the famous econometric studies of, for instance, the growth of the United States economy if there had been no Civil War or there had been no railroad development. Suffice to say that the growth in trade has been spectacular and extraordinarily substantial and whatever the reasons for such development, it is difficult to escape the notion that there is a connection between the MOU and the growth of that trade.

The signing of the MOU was the outcome of a very steady series of domestic developments, particularly in the cattle industry during the late 80s and early 90s, such as BTEC and the increasing numbers of Brahman cattle in Top End herds. It was also a reflection of steady progress in non-economic areas, such as:

- the A$20m funded AusAID Indonesia-Australia Technical and Vocational Education Project (which started in 1990 but had been in the planning process since 1988) covering some 19 secondary vocational schools in Eastern Indonesia plus 15000 students and 4000 teachers and staff;
- the Northern Territory teacher and student exchange which started in 1979, but had its origins at Darwin High School back in 1973;
- the National Indonesian Language Curriculum Project which designed a complete primary and secondary curriculum for
teaching Indonesian throughout schools in Australia, including film footage taken in a variety of locations, including the eastern provinces;  
- cultural exchanges including music and dance;  
- university contact for library development and mutually beneficial research such as trochus shell cultivation; and  
- the growth in sporting contact through such events as the Arafura Youth Games and Arafura Sports Festival, various boxing and other contests which brought together Northern Territory and Indonesian contestants.

The cattle trade reflects quite extraordinary growth, numbers exported from Darwin to Indonesia increasing from 17,342 head in 1992 to 227,010 in 1996 – a 13 fold increase. Indonesian interests now own eight cattle properties in the Top End of the Northern Territory, including Tipperary Station, 150km south of Darwin.

Cattle Trade Figures 1992-96

In terms of structure, the MOU established an organisational environment designed to promote business activities. Accordingly, the Joint Policy Committee (JPC) responsible for implementing the MOU was supported by a series of working parties; one for each of the ten provinces comprising Eastern Indonesia (usually headed by the provincial head of Bada Koordinasi Penamanan Modal (BKPM) – the national investment coordinating board) and a Northern Territory working party – a largely private sector-dominated body. The purpose of the working parties was to bring business opportunities to the attention of Australian and Indonesian business people in their respective provinces. The role of the JPC was to provide a means of reporting developments at a national level and to act where necessary as a mediator in disputes brought to its attention. In terms of support, the Northern Territory committed both financial and human resource support to its working party and the JPC.

Initially this system worked well but, as the JPC and MOU became established, initial enthusiasm can be said to have declined as everyday business contacts developed in NTT (Nusa Tenggara Timur) and NTB (Nusa Tenggara Barat) provinces
particularly, as well as in South Sulawesi and to a lesser extent in Maluku and Irian Jaya. Unfortunately not all these developments resulted in sustained business – for a variety of reasons, some of which may well now become the subject of resolution within the envisaged work and structures of AIDA.

Perhaps this was inevitable and in some respects it reflected that, since the MOU and the JPC matured together, so direct contacts were increasingly made between provincial business people in Eastern Indonesia and their counterparts in the Northern Territory. Equally, it must be said that in a number of provinces the lack of contact or the inability of contacts to develop into fully fledged business meant that the working parties gradually withered with the lack of sufficient positive reinforcement for their efforts. Consequently, despite the initial bursts of enthusiasm, for example in Irian Jaya, the inability of business ventures to succeed in association with their Northern Territory counterparts meant that eventually the working parties became non-operative.

The same can be said for South Sulawesi where despite initial considerable optimism and level of commitment from the Northern Territory Government and private sector interests, the business activities did not develop.

Of course, there have been some negative results. In Ujung Pandang there was considerable investment by a Northern Territory company and its United Kingdom and Australian backers to develop the market for moulded timber products. In the end this became unprofitable and the venture was closed down after three and a half years. Furniture exports to the Northern Territory proved initially more successful and established a market in Darwin and the south. Subsequently the importer sought and got better deals elsewhere in Indonesia – particularly East Java.

The most active working parties have been those in Nusa Tenggara Timor, Nusa Tenggara Barat and East Timor. There has also been at varying times reasonably strong activity from Maluku. Of particular interest in South Sulawesi was the Government support for a shipping service offering a direct link between Darwin and Ujung Pandang. Despite considerable support which included a financial contribution from the
Northern Territory Government, this service did not in the end prove to be profitable.

The development of transport links has always been seen as a vital key to the growth of trade between Eastern Indonesia and northern Australia. The record has been patchy but there are signs that despite a number of false starts, a liner service between Darwin, Kupang and Surabaya will become a profitable operation, initially using an Indonesian flagged vessel owned by the Ozindo Line owned by Surabaya business interests.

In terms of air transport there is continuing strong Northern Territory interest in the link pioneered between Ambon and Darwin by Merpati, which the company has subsequently dropped. Merpati's policy decision to allow local travel agents in Darwin to wholesale its seats will have a beneficial effect on efforts to promote its Kupang route. It must be said that in terms of efforts to foster transport links the Northern Territory's attempts to sustain shipping routes has been matched by Indonesian efforts to do the same with air routes.

The Need for Air and Sea Transport Links

Tourism has so far been slow to expand. Nevertheless, Northern Territory interests in Eastern Indonesia have grown steadily, with visitors from the Northern Territory travelling to Kupang, Mataram and Bali and other points in Eastern Indonesia rising from 17,686 in 1992 to 35,436 in 1995, while inbound visitors amounted to 18,109 and 32,676. The market segmentation includes back-packers, family packages and holiday-makers and those looking for five star experiences in NTB province and westward to Bali.

The creation of the Arafura Tourism Zone, mooted by the Pacific Asia Tourist Association during its meeting in Darwin in 1994 has been confirmed, with its official launch at the Berlin International Tourism Course in May 1997. The MOU has put the region on the map and it is no coincidence that the Arafura Tourism Zone was created in Darwin following the signing of the MOU.

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Timor Gap

Another zone of significance is the Timor Gap. The Timor Gap Treaty of 1989 established a Joint Authority in 1991 with its Australian office in Darwin – a mark of the Australian Government’s recognition of the pivotal role the Northern Territory plays in the development of Australia’s strategic relationship with Indonesia. I will not dwell on the ramifications of the Timor Gap in terms of Darwin’s growth as a mining service and support base, nor the developments arising from the explorations and discoveries there (see Map 1). These matters will be dealt with by later and far better qualified speakers.

In June 1996 the Northern Territory was invited, through Dr Frans Seda, to participate directly in the work of the Presidential Council for the Development of Eastern Indonesia. This Council, chaired by President Suharto, has the task of accelerating the growth of Eastern Indonesia – the 13 Provinces east of Bali and including those on Kalimantan. By the various accepted measures of living standards such as child mortality, life expectancy and literacy levels, eastern Indonesian provinces generally lag behind those of their western counterparts.

The Council’s secretariat is located in Minister Habibie’s Research Ministry – Minister Habibie has day-to-day responsibility for the Council – and has granted the Department of Asian Relations, Trade and Industry (DARTI) access to its planning process.

The Council has identified 13 provincial integrated economic development zones (known as kapets) designed to promote business activity in areas outside the provincial metropolitan regions. The Northern Territory has decided to focus on four of these – in the provinces of Nusa Tenggara Barat (the area around Bima on the island of Sumbawa), Nusa Tenggara Timur (the area of Mbay on the island of Flores), Timor Timur (the area comprising the towns of Betano, Natabora and Viqueque on the east coast) and in the province of Maluku on the island of Seram.

Map 2 illustrates the Northern Territory’s place in Australian – Indonesian relations and makes clear some of the factors on which the MOU is based.
Map 1: Timor Gap - The Northern Territory's off-shore oil and gas interests
Map 2: Australia – Indonesia development area
Eastern Province Integrated Economic Development Zones

A business plan has been devised, aimed at establishing the feasibility of a variety of commercial activities in these development zones, focusing on agriculture (particularly cattle farming), fisheries and tourism. The first of these studies commenced in May 1997 with a study of the feasibility of cattle raising in kapet Mbay. It is certain that the region, historically a source of beef for the Indonesian market, can be developed on a BOOT basis, attracting the interest of Australian investors with pastoral interests.

In October 1996 the Hon. Eric Poole attended the Australia-Indonesia Ministerial Forum as a guest of Mr Alexander Downer (Commonwealth Minister for Foreign Affairs).

This was the first time a state or territory government minister had attended this important forum. Minister Poole was invited to speak at the forum and made the point that the Northern Territory has consistently been an advocate for increased investment into Eastern Indonesia.

At the Ministerial forum a new bilateral growth area concept was launched – the Australia-Indonesia Development Area (AIDA).

The Australia–Indonesia Development Area

AIDA has the purpose of fostering an enabling environment for Australian business in Eastern Indonesia – Eastern Indonesia being all those provinces outside Java and Sumatra. This enabling environment seeks to address an issue keenly felt in Indonesia – the need for the Eastern Provinces to attract investment. There is no doubt that Indonesian and foreign investors still find Java and Sumatra more attractive destinations for their capital.

The Northern Territory was there at the conception of AIDA and continues to be actively involved in progressing this concept. At the Ministerial Forum, Mr Downer described the Northern Territory as the ‘pacesetter’ in developing links with Indonesia at the regional government level.
In return, Coordinating Minister for Production and Distribution, Dr Hartarto, defined the Northern Territory as the 'trend-setter'. It is terms like these, plus the incontrovertible development of trade, the growth of transport links, the development of tourism and the establishment of education and cultural relations which reflect the achievements of the MOU. And the best thing about it is that there is still an infinite amount to be done in mutually profitable partnership with our Indonesian friends, colleagues and counterparts.

Finally – there can be no doubt that the MOU with Indonesia paved the way for the MOUs which have now been signed with Bali and further afield in BIMP-EAGA (Brunei, Indonesia, Malaysia, Philippines East Asean Growth Area) with the Philippines, Brunei and the Malaysian Federal Territory of Labuan. But that, as they say, is another story.
PROFILES OF NORTHERN AUSTRALIA AND EASTERN INDONESIA

JAMES FOX

To provide a profile of Eastern Indonesia and its relation to northern Australia is a complex undertaking. In this chapter, I shall attempt, in very brief fashion, to sketch what I consider to be some of the most prominent social and historical features of the region.

Defining the Region

The Northern Territory has specific boundaries but northern Australia, which includes more than just the Northern Territory, is less specifically defined. The same is true of Eastern Indonesia. There are many definitions of what constitutes 'Eastern Indonesia'.

The Dutch were responsible for initiating designations of Eastern Indonesia by the use of the term *De Groote Oost* which was used to designate loosely a region centred on the Moluccas and East Nusa Tenggara. West Irian was never included in this

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designation nor were, in most discussions, Sulawesi, Sumbawa or Lombok.

After Indonesia had declared independence, the Dutch tried unsuccessfully to create a political Federation of Eastern Indonesia which was supposed to embrace Bali, Sulawesi, all of Nusa Tenggara and the Moluccas. (West Irian was again quarantined by the Dutch from inclusion in this federation.) This belated Dutch creation had only a brief existence and was thwarted and subverted by the nationalists of Eastern Indonesia. It can only be considered today as a colonial curiosity and not a model for the region.

The present Indonesian government’s designation of Eastern Indonesia Kawasan Timur Indonesia (KTI) is a geographically generous one. It includes Sulawesi, East and West Nusa Tenggara plus East Timor, Maluku and Irian Jaya and has been extended to include all of Kalimantan as well (Suprayoga Hadi 1996). This is a vast area which has a great deal in common, particularly in its complex interwoven history, but it is also an area that harbours a great diversity and an enormous array of differences. One can either proceed to consider the region’s contrasts or its commonalities. Here I shall concentrate my attention on the core area of Eastern Indonesia: Sulawesi, Maluku and Nusa Tenggara. Consider just one contrast: the northern half of Eastern Indonesia, which forms part of the humid tropics, includes some of the areas of greatest rainfall in Indonesia; by contrast, the southern islands of Eastern Indonesia belong to the semi-arid tropics and are among the areas of lowest rainfall in Indonesia.

In all of the literature on Eastern Indonesia, there are few more evocative and poetic passages than that of Rumphius’ description of the mountains of Ceram where ‘the mist never ceases to drip’. He writes:

And an eternal silence, a ghastly twilight, and a whisper of winds reigns there, nor should one speak loudly but cross these mountains in patient stillness, for a loud crying will stir the air to rain (Beekman 1981:224).

Contrast that 17th century Dutch description with a 19th century description of the island of Savu in the southern reaches of Eastern Indonesia, as first glimpsed by the missionary Wijngaarden:
The first impression, which one gets, is that nature has meagerly endowed Savu. How poor the island appears at first sight! See the mountains, how barren they raise their tops. No greenery, no plant, no tree. Savu is, as it were, a lump of rock in an immense sea (Wijngaarden 1890:367).

The fact that this region is so environmentally diverse has meant that human adaptations within the region, over many millennia, have made it one of the most socially and culturally diverse regions in the world. A sense of this diversity can be gained by reference to a few simple statistics.

*Ethnologue* (Grimes 1992), now in its 12th edition, is the most comprehensive catalogue of the languages of the world. (The data in the volume for Indonesia are particularly reliable, since they are largely based on research done over many years at the Research School of Pacific and Asian Studies.)

According to *Ethnologue*, there are 59 distinct languages spoken on the islands of Nusa Tenggara and East Timur but this is a relatively small number compared to 116 languages spoken on the island of Sulawesi, or the 125 languages spoken in the Moluccas, or, topping them all, the 148 languages of Irian Jaya. Add to this the languages of more recent transmigrants from other parts of Indonesia and, in total, there are well over 480 languages spoken in the region. Most of the much noted linguistic diversity of Indonesia is located in Eastern Indonesia.

Significantly, northern Australia is not to be left behind in this regard. Most of the linguistic diversity of Aboriginal Australia is in the north and, thus according to recent assessment, there are at least 86 aboriginal languages in northern Australia.

Linguists have only begun to sort out the inter-relations among the languages of the region which includes at least three distinctive language families (or phyla). Anthropologists, too, have only begun to provide accounts of the diverse cultural and social ideas of the region’s peoples.

The history of the Eastern Indonesian region is equally remarkable. A combination of linguistic and archaeological evidence indicates that a migration of Austronesian-speaking peoples, with a capacity for agriculture, domesticated animals (dogs, chickens, pigs and possibly goats) and a developed sailing technology, began to reach the Sulu and Sulawesi seas between
4000 and 5000 years ago and then, by many routes, keeping close to coasts, established settlements on small islands. Only much later did such populations penetrate the interiors of the large islands of the regions.

For centuries the same pattern that fostered linguistic diversity promoted a scatter of small, autonomous, often mutually hostile, settlements linked by various limited forms of trade and exchange. There is little evidence, except in Ternate and Tidore, on the island of Timor, on Sumbawa and in southern Sulawesi, of the development of larger state-like structures. In all of these cases, these state-like structures were associated with a control of trade. It was not until the tumultuous period of the 16th and 17th centuries that larger ethnic identities began to coalesce around specific centres of allegiance.

Rather than viewing Eastern Indonesia as a backwater, it is important to realise that the region was once a centre of world trade. Eastern Indonesia includes the fabled spice islands, the island source of the finest of sweet scented sandalwood and the home of the plumbed bird of paradise, which European legends credited with living continually on the wing and never descending to earth.

The evidence from recent archaeological research suggests that world trade in spices from the northern Moluccas may have begun to be developed about 2000 years ago by western Austronesian traders linked to traders in South India who in turn transmitted some of these spices as far as the Roman Empire (see Bellwood 1994). Trade in sandalwood from Timor appears to have begun much later but was probably well established by the 12th century.

By the 14th or 15th century, this trade in exotic goods came to be dominated by traders from Java. From Java, too, came the mystic teachings of Sunan Giri in Gresik that inspired the first conversions of the nobility of Ternate to Islam.

The 16th and 17th centuries were marked by the arrival of European traders who came in search of nutmeg and cloves from the Moluccas and of sandalwood from Timor. The Portuguese first found their way to Ambon in 1505, and in 1511 they conquered the trading port of Malacca. Although their main trade was in the Moluccan islands, they also established a fort on the
island of Solor in 1566 from which to trade with Timor. The British under Francis Drake reached Ternate in 1579 by which time the Portuguese had been driven from the island and had established themselves at Ambon.

The Dutch arrived in Ambon in 1599 and soon afterwards, in 1602, persuaded by the profits to be made from the spice trade, they created the United East India Company (VOC) that relentlessly imposed its control over trade throughout the region, relegating the Portuguese and British to a peripheral place in the Indies and confining the Spanish to their possessions in the Philippines.

In 1605 the Dutch, in alliance with the population of Hitu on the northern coast of Ambon, drove the Portuguese from their fort on Ambon to establish their supremacy in the Moluccas; in 1613, they drove the Portuguese-speaking Topasses from their fort on Solor. But these Topasses (or 'Black-Portuguese' as the Dutch referred to them) were able to shift their settlement to Larantuka on Flores which remained unconquered and to found a further settlement at Lifao on the north coast of Timor to maintain their trade in sandalwood.

There is one port that is just off the edge of Map 2 – Surabaya. At no time since the 15th century has Surabaya (defined here to include Gresik/Giri) not been of major importance in the history of Eastern Indonesia and it remains so to the present. Surabaya is today, as in centuries past, unquestionably the pre-eminent trading port for the Eastern Indonesian archipelago (see Dick, Fox & Mackie 1993; McMichael 1996).

The Malay Speaking World

In an area of great linguistic diversity, there is a need – indeed the necessity – of some lingua franca. By the 15th century – and probably much earlier – this lingua franca was Malay. The whole of the region, including much of the Irian coast, relied on Malay as a means of communication and was already linked to a wider Malay-speaking world that centred on Malacca.

An important early document of Malay literature is the *Hikayat Tana Hitu* which describes the struggle of the local inhabitants of Hitu on Ambon against the intruders into the region, first the
Portuguese and then, for a period, the Dutch. The remarkable feature of this document is that it is indeed in Malay, and not some local language, and further that it utilises a dialect of non-standard (non-Riouw) Malay that is most closely related to those dialects of Malay, still spoken locally, in various modulations, throughout Eastern Indonesia.

Even the so-called 'Black Portuguese', who retained control of much of east Flores and of Timor against all Dutch efforts to expel them and who were distinguished by their use of Portuguese among themselves, are reported to have been equally fluent in Malay, which was the trading language of the region.

The northern coast of Australia only began to become part of this Malay-speaking world in the second half of the 18th century and in the early 19th century through the Maccassan trepang gatherers.

It is interesting to reflect on Flinders' first encounter with *perahu* from Makassar on the north coast of Australia in 1803. He writes:

... we learned that they were prows from Macassar, and the six Malay commanders shortly thereafter came on board in a canoe. It happened fortunately that my cook was a Malay, and through his means I was able to communicate with them (Flinders 1814: 229).

It is interesting, too, that it was another exotic product – trepang, sea-slug or bêche-de-mer – which was traded on to China that brought these first voyagers to the north coast.

Port Essington on Cobourg Peninsula can rightly be considered the first northern Australian port to become, if only briefly, a part of an expanding Eastern Indonesian trading sphere. First discovered by King in 1818, claimed for Britain by Bremer in 1824 and then finally established by Bremer as a settlement in 1838, Port Essington was more often, and more reliably, supplied from Eastern Indonesia than it was from Sydney. The fresh supplies came first from the island of Kisar – nineteen buffalo, sixty pigs and over a hundred sheep plus yams and coconuts – then, later, from Dili and eventually from various other parts of the region, including Kupang, the Kei Islands, Bali and, by *perahu*, from Makassar (Spillet 1972, 32ff). It was here that the first water
buffalo and the first Bali cattle or banteng were introduced to northern Australia.

What was disappointing, however, was the capacity of this small outpost settlement to carry out trade within the region. Thus writing in June 1841, Earl was forced to report: 'The prafuls came in earlier than usual this year, and, I am sorry to say, brought more goods than we had money to purchase' (Earl 1842:139). Finally after a devastating cyclone, earthquakes and repeated influenza epidemics, having failed to attract 'industrious Malays and Chinese' whom Bremer, its founder, had hoped would 'flock to it' (Lockwood 1969, 16), Port Essington was abandoned in 1849. On its own, it was unable to sustain a viable position of trade with the region.

The stage was set for the establishment of Port Darwin twenty years later and the next phase in the involvement of northern Australia with the region to the north.

Sharing Maritime Traditions and Global Responsibilities

Turning from the past to the present we briefly focus on a few possible features for a framework of cooperation.

Both Australia and Indonesia have been shaped by a maritime past and by the values associated with it (Fox in press a & b). Australians inhabit an enormous land mass but 90% of the Australian population lives along the coast and near the sea. In fact, according to the recent National Report on Population Growth Ranking in Australia and New Zealand, 25 per cent of all Australians live within 15 minutes drive of the Pacific Ocean coastline (1995, 30).

Most Australians, even more than most Indonesians, are predominantly coastal dwellers. It is the sea that links Australia and Indonesia and it is the sea that confers on both countries major global responsibilities.

Eastern Indonesia, as indeed northern Australia, is characterised by great marine diversity. Thus, for example, the seas from the Barrier Reef to Biak through Nusa Tenggara, Maluku and Sulawesi form the epicentre of the world's coral reef diversity. Over 60 per cent of all genera of coral in the world are concentrated in these seas. By comparison, the Caribbean, which
is the second largest area of coral biodiversity, has only 20 per cent of coral genera. No other area of the world has more than six or seven per cent.

Indonesia and Australia are therefore the 'national custodians' of the world's biodiversity of coral species. As their global responsibility to the rest of the world, Indonesia and Australia have the task – which is not an easy task – of preserving and managing this unique biological resource. It is important to recognise that this is not a set of independent resources but a single vast resource with inter-linkages that needs to be managed cooperatively to be effectively managed at all.

The same is true of the pelagic resources of the seas that link Australia and Indonesia. What Australia does to its fisheries affects Indonesia, just as what Indonesia does affects Australia. Fish species recognise no national boundaries. The spawning grounds within one country's territorial seas give rise to the fisheries of many oceans.

This responsibility is even more significant now that the national maritime boundaries of Indonesia and Australia have been extended to include vastly increased areas within newly recognised exclusive economic zones.

Already Indonesia and Australia are together participating in fundamental global research projects such as the International Coral Reef Initiative, the Global Ocean Observing System (GOOS) and the Global Climate Observing System (GCOS). These and other global projects offer the clear prospect of transforming our understanding of our common marine environment.

On a lesser scale but of not inconsiderable importance, the Research School of Pacific and Asian Studies at the Australian National University has signed a letter of cooperation with research counterparts in the Indonesian Academy of Sciences (Lembaga Ilmu Pengetahuan Indonesia: LIPI) to coordinate research on the maritime communities of Eastern Indonesia and has been cooperating through LIPI and Australian Marine Science and Technology (AMSAT) in developing management strategies for the Indonesian priority project known as COREMAP: The Coral Reef Management and Rehabilitation Project.
For any framework of cooperation, a research component to create such fundamental understandings needs to be clearly specified and given priority.

The Potentials of Cooperative Efforts

The Great Barrier Reef Marine Park Authority, operating within a World Heritage framework, is able to sustain a $1.3 billion tourism industry and a $500 million commercial fishery. Northern Australia and the islands of Eastern Indonesia offer far greater potential for marine and eco- and social tourism than the Great Barrier Reef but lack almost entirely the necessary infrastructure to achieve even a fraction of this potential. At the same time, existing marine resources, on which both tourism and fisheries might thrive, are threatened by the pressures of an increasing maritime population that is becoming ever more impoverished and is forced, or hired, to adopt ever more rapacious methods to obtain their livelihood.

As part of a framework for cooperation greater and more coordinated efforts to understand and to deal with the problems of the fishing and sailing populations of Eastern Indonesia need to be made. The recurrent problem of traditional perahu fishermen intruding into Australian waters is part of a wider and more fundamental problem located in Eastern Indonesia. The Australian side of this problem is much more manageable than that on the Indonesian side. It is an area, as in the management of coral reefs, where Australia, in its own long-term interests, could take a leading and innovative role.

Acknowledgment

I thank Keith Mitchell of the Cartography Unit, Research School of Pacific and Asian Studies for the two maps he has prepared for this paper.
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A FRAMEWORK FOR INTERGOVERNMENTAL RELATIONS

The Memorandum of Understanding between the Australian Bureau of Statistics and the Central Bureau of Statistics of the Republic of Indonesia

DAN BLACK

Introduction to the Memorandum of Understanding

The Australian Bureau of Statistics (ABS) has a long history of interacting with the international statistical community regarding conceptual and technical developments in many fields. Involvement in the Asia Pacific region has been a particular international focus of ours in recent times. Examples include our relationship with the South Pacific Commission (SPC); involvement with APEC on trade data matters; trade database, price index and national accounting development assistance for various countries in the ASEAN region; and population census development work in Vietnam and Cambodia.

In recent years quite a bit of senior level contact with our colleagues in the Central Bureau of Statistics (BPS), Indonesia has occurred and these high level contacts and visits resulted in a

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recognition that both ABS and BPS could advantageously cooperate in furthering the goals of each agency. The BPS and the ABS have common goals of providing high quality, relevant and timely information to assist decision making in their countries, by governments, business and the wider community. Both agencies contribute actively to international statistical activities.

What started as initial personal contacts by senior people in both agencies, through involvement in various international statistical forums, has now evolved into the signing of a memorandum of understanding between the two agencies.

The BPS and the ABS understand that there are many fields where cooperation between the two agencies may yield significant benefits for both countries.

Both BPS and ABS recognised from the outset that efforts in enhancing bilateral cooperation should take into account broader and existing statistical developments being undertaken in which both agencies have involvement, eg the work proceeding within APEC, and specifically in the Trade and Investment Data Review Working Group, on developing databases in merchandise trade, services trade and international investment flows for all APEC members. Such involvement has the potential to have a positive impact on Australian-Indonesian cooperation in these fields of statistics.

Areas for fruitful cooperation are likely to alter from time to time, and experience in one agency on a particular subject may be of benefit to the other. Appropriate changes to the proposals for cooperation (Appendix 1) may therefore be jointly determined through an exchange of letters between the Director General, BPS, and the Australian Statistician.

The BPS and the ABS understand that cooperation and mutual respect will be encouraged by regular personal contact. Therefore the Director General, BPS, and the Australian Statistician and or their representatives, plan to meet regularly to assess progress in the areas for cooperation and to consider any other matters of mutual concern.

In addition, exchange visits will be encouraged between the BPS and the ABS, both at national level and, where appropriate, at provincial/state or territory level.
Notwithstanding that the BPS and the ABS acknowledge that the extent to which cooperation may be pursued will, in some instances, be dependent on the availability of appropriate resources and funding, proposals covering a wide range of statistical activity which are currently being considered are detailed in Appendix 1. The Memorandum of Understanding is at Appendix 2.

I will turn now to some local initiatives resulting from proposal (I) listed in Appendix 1:

BPS and ABS will cooperate to ensure that regional data for Indonesian Eastern Provinces and Australian Northern Territory is readily available to government, business and the community in their respective countries.

The ABS Northern Territory Office has a keen interest in government and business developments in our near Asian region. The Department of Asian Relations Trade and Industry (DARTI) and the Department of Transport and Works (T&W) are seen by ABS as key and strategic clients and, as such, we recognise that their relevant policies and programs, particularly those which are aimed at positioning Darwin as a future commercial hub for the near Asian region, are likely to impact on both ABS statistical developments and service delivery.

The 1996 Northern Territory statistical priorities paper prepared by ABS in consultation with Northern Territory government departments, also highlighted the importance of statistics on the Northern Territory's interaction with the near Asian region in the following terms:

Statistics about interstate and overseas trade and transport are of major interest to the Northern Territory. Imports and exports are very significant to the Northern Territory economy (because of its high reliance on primary industries, its low manufacturing base, its desire for increased trade with its near Asian neighbours and its desire for a strategic position in trade between Asia and other Australian states). There is strong support for improvements to the Freight Movements Survey, for an interstate trade collection, for a removal of some of the confidentiality restrictions which bedevil users of overseas trade statistics and for better integration of data from other sources (such as port statistics, statistics on live cattle exports, etc) by the ABS.
For similar reasons, there is strong interest in statistics about our Asian neighbours, particularly the East Indonesian Provinces. The primary focus here is again trade and transport, as well as information that may highlight potential trade opportunities. Passenger movements and tourism is also of interest as the Northern Territory again sees opportunities for Australian or Northern Territory based transport and tourism operators.

Two major ABS Northern Territory publications now include economic and social profiles for ten Eastern Indonesian provinces. They are *Northern Territory in Focus*, 1996, (catalogue number 1306.7) and *Regional Statistics Northern Territory*, 1997, (catalogue number 1362.7).

A regular exchange of statistical and methodological publications occurs between the ABS Northern Territory Office and selected provincial offices of BPS. The BPS publications are catalogued by the ABS Canberra Library, but are maintained on-site at the Darwin office of ABS, and can be accessed by interested users on a self-help basis.

A report on available country and provincial data drawn from various non-ABS sources was prepared for ABS Northern Territory Office in 1996 by an external consultant. The report identifies sources for gathering trade and socio-economic data and summarises some key indicators for the countries of the near Asian region and for selected provinces of Eastern Indonesia. The report is available for reference upon request.

Further studies are currently being undertaken to identify the strength of demand nationally, for statistics on the ASEAN region and growth areas within it and in particular, to identify the nature of demand for statistics on trade in services between Australia's states/territories and the region. The outcomes of these reviews will help determine future directions in relevant ABS work programs.
Appendix 1

Proposals by ABS for Cooperation under the Memorandum of Understanding between BPS and ABS

A. International Trade Statistics

Relevant text of MOU

BPS and ABS will:

a) Adopt standard international classification of trade in goods and services to the extent feasible;

b) Develop an understanding of the extent to which Indonesian and Australian bilateral export and import data exclude goods that pass through a third country, or include goods that are sourced or destined for a third country (the entrepot issue);

c) Exchange information on developments in the methodology for processing of international trade statistics and measuring trade in services between Indonesia and Australia; and

d) Compare:

i) BPS data on exports to Australia with ABS data on imports from Indonesia;
ii) BPS data on imports from Australia with ABS data on exports to Indonesia.

Proposals for cooperation

A1 For international trade in goods, the ABS and the BPS will exchange bilateral import and export statistics at detailed commodity level (6 digit HS) and subsequently compare these data to determine the size of discrepancies. It is proposed to initially focus on statistics for calendar year 1994.

Comparisons of bilateral data will also occur on an ongoing basis in the APEC Trade and Investment Data Working Group when the database for this project is loaded with both countries' published data (at 4 digit HS level) later this year. Indonesia will need to adjust
its published imports data to a free on board basis to meet the agreed standardisation criteria for data on this database.)

A2 Further work in relation to international trade in goods will depend on the results of the analysis undertaken under proposal A1, the capacity of each agency to adjust their bilateral data within a common framework, and resource availability in each agency.

A3 For international trade in services, the ABS proposes to assist in any work to further develop Indonesia's statistics, as the opportunity arises and resources permit. (The ABS has already indicated this to the BPS.)

Bank Indonesia and the Ministry of Trade are the agencies responsible for these statistics in Indonesia. Only very limited bilateral data (specifically exports of travel services) are compiled by these agencies.

(Comparisons of available bilateral data are occurring on an ongoing basis in the APEC Trade and Investment Data Working Group. Statistics New Zealand is responsible for coordinating this work. The only data supplied by Indonesia to date for this exercise has been global services data on a net basis (credits less debits) split into transportation, travel, government and other services.)

ABS coordinator: Mr Ivan King, Ms Barbara Dunlop,
phone + 61 6 2526039, fax + 61 6 2531051

B. International Investment Statistics

Relevant text of MOU

ABS will assist BPS and other related Indonesian government institutions in understanding ABS methods of deriving international investment statistics. In particular, ABS will assist in specifying data to be collected on international investment flows to and from Indonesia, and assist in assessing the accuracy of any statistics subsequently compiled.

Proposals for cooperation

B1 The ABS proposes to assist, as the opportunity arises and resources permit, in any aspect of the proposed redevelopment and improvement, described below, of Indonesian statistics on foreign direct investment over the next few years. (This commitment has already been indicated to representatives of both the BPS and the Foreign Investment Advisory Service (FIAS), which is a joint service of the International Finance Corporation and the World Bank.)
Indonesia’s foreign direct investment statistics are currently the responsibility of the Indonesian Investment Coordination Board (BKPM) and Bank Indonesia. Its other international investment statistics are solely the responsibility of Bank Indonesia. The Indonesian agencies are planning to redevelop and improve Indonesian statistics on foreign direct investment over the next few years, with assistance from FIAS and consultants from the World Bank/IMF and the US Bureau of the Census.

ABS Coordinator: Mr Ivan King, Ms Barbara Dunlop, phone +61 6 2526039, fax +61 6 2531051

C. Labour Market Statistics

Relevant text of MOU
ABS will assist BPS in improving Indonesian labour market statistics, notably from the labour force survey.

Proposals for cooperation

C1 Subject to BPS requirements and priorities, ABS could assist in one or more of the following broad areas:

(a) Analysis/presentation of labour market data.
(b) Development and analysis of regional labour force statistics.
(c) Use of regular household surveys to gather information on various labour market characteristics including transition from education to work, job search experience of the unemployed, labour mobility and marginal attachment to the labour force.
(d) Development and conduct of establishment surveys to measure contemporary labour market issues including major labour costs, employer training expenditure, difficult to fill vacancies.

It is suggested that one or two officers from BPS visit the ABS to develop more specific proposals for cooperation leading to a mutually suitable work program. Alternatively, a senior ABS officer could visit BPS to determine relevant areas of cooperation.

ABS Coordinator: Mr Robin Green
phone +61 6 2527166, fax +61 6 2525172
D. Services for Clients and Data Users

Relevant text of MOU
ABS will assist BPS to:

a) develop procedures to establish the range of clients and data users that BPS serves, and to establish and assess the needs of those clients and data users;
b) design appropriate products and services to meet the identified needs of the clients and data users.

ABS will endeavour to include, in its periodic publications containing international statistics, key and up-to-date BPS' published statistics.

Proposals for cooperation

D1 It is proposed that the ABS provide a report regarding the following topics (and any other relevant matters), together with examples of products, brochures, and other materials:

(a) Information about aspects of ABS activities:
   (i) Product and service range, particularly in areas beyond traditional publication dissemination, which generates only about 20% of ABS revenue.
   (ii) Public relations and marketing practices which support ABS business practices.
   (iii) Organisational strategies, including details about market segment strategies, inquiry services, bookshops, subscription services, client management and sales activities, etc.
   (iv) Use of advisory groups, market research, and other activities in determining user needs and product specifications.
   (v) Use of wholesaling and retailing for distributing information.
   (vi) Use of database subscription and marketing systems for client contact and promotion.

(b) Possible ABS assistance to the BPS in the development of electronic dissemination products, such as:
   (i) Electronic catalogues on floppy disk or CD ROM.
   (ii) Publications on CD ROM, e.g. compendiums like the Year Book and historical publications.
   (iii) Database products on CD ROM.
A Framework for Intergovernmental Relations: The MOU between the ABS and the BPS of the Republic of Indonesia

(iv) On-line time series service.
(v) Internet service.
(c) The inclusion of key, up-to-date Indonesian statistics in ABS periodic publications of international statistics. (Possible ABS publications include Australian Economic Indicators and Monthly Summary of Statistics. In addition, PC AUSSTATS, the ABS on-line time series system, contains some international series and could include relevant Indonesian series.)

D2 After the BPS has had a chance to assess the material provided under proposal D1, it is suggested that the BPS might send relevant people to the ABS to discuss in more detail:
(a) ABS experience, strategies, organisational arrangements, planning processes, etc.
(b) BPS practices, facilities, organisational arrangements etc.
(c) Strategies which, in ABS experience, might help develop BPS client service activities and outcomes.

D3 It is proposed that implementation of proposals D1 and D2 would initiate some ideas on development paths, which would require ongoing involvement by both parties, and possibly further exchange visits in either or both directions.

ABS coordinator: Mr Dick Crockett, Mr Denis Farrell, phone + 61 6 2527502, fax + 61 6 2531093

E. BPS Network Development

Relevant text of MOU
ABS will advise BPS on the advantages and possibilities of integrated communication network within individual BPS offices and as a system to link all BPS offices.

Proposals for cooperation
E1 A staged approach is proposed. Stage 1 would determine the feasibility and scope of the exercise and plan subsequent stages, stage 2 would involve planning development of the network and stage 3 would involve implementation of the network. The following discussion is largely concerned with stage 1, which in turn would be divided into 5 activities.
Activity 1: Collect Background Information

In this activity the ABS would attempt to obtain general background information about:
(a) The organisational structure of the BPS.
(b) The current technology infrastructure in the BPS.
(c) The distribution, size and activities of BPS offices.
(d) BPS plans and aspirations that have technology implications.
(e) Telecommunications infrastructure in Indonesia.
(f) A primary contact within the BPS.

(The main source of this information would clearly be the BPS. However the Information Technology area of the Australian Government Department of Foreign Affairs and Trade, and possibly Telstra (a tele-communications company owned by the Australian Government), may be able to provide some information about telecommunications infrastructure.)

Activity 2: ABS Staff Visit Indonesia

The purpose of this visit would be to gain a thorough understanding of the BPS environment and its technical capabilities, to establish contacts at both management and working levels, to explain to BPS management the advantages that the ABS gains from its network and to discuss the scope of the project with BPS management. At least one regional office should be included in the visit. Discussions with one or more telecommunications providers may also be desirable.

Activity 3: Produce Draft Stage 1 Report

This report would discuss one or more broad options for the development of the BPS network and ways in which the ABS could be of assistance.

Activity 4: BPS Staff Visit ABS

It is proposed that two BPS staff visit the ABS to enable them to see the ABS network in action and to discuss the draft report. The aim would be to enable the BPS staff to gain some first hand experience of the way we use and manage our network and to provide an opportunity to discuss the draft report.

Activity 5: Finalise Report

After incorporation of any changes resulting from discussions with the BPS, the report would be finalised. The content of the report would determine the implementation strategy for stages 2 and 3.

ABS coordinator: Dr Paul Pentony,
phone + 61 6 2525144, fax + 61 6 2513946
F. Glossary of Terms and Mutual Understanding

Relevant text of MOU
BPS and ABS will cooperate to produce a common Indonesian-Australian statistical glossary. ABS will assist as required with the English expression used in the BPS publication.

Proposals for cooperation
F1 It is proposed that the BPS provide to the ABS a copy of any glossary that the BPS currently has showing the English translation of words, phrases and classifications used in BPS statistical publications.
If a glossary exists in electronic form, it is proposed that the BPS should provide a copy in electronic form as well as in hard copy.
F2 If a glossary does not exist in electronic form, it is proposed that the ABS produce such a version and provide a copy to the BPS.
F3 It is proposed that the ABS should review any glossary provided under proposal F1 with the aim of offering comments to the BPS directed towards improving the glossary, if necessary and possible.
It is proposed that this work would be initiated in the ABS office in Darwin, within the constraints of available resources.
F4 It is proposed that, on the basis of experience by the BPS and the ABS under proposals F1-F3, there should be consultations between the BPS and the ABS on possible further cooperation on glossaries and English expression in BPS statistical publications and, if appropriate, a program for such cooperation should be determined.

ABS coordinator: Mr Peter Harper, Mr Zia Abbasi,
phone + 61 89 432130, fax + 61 89 811218

G. Metadata Management

Relevant text of MOU
ABS will assist BPS to develop policies and systems to manage BPS metadata to improve the consistency of statistics drawn from different sources.

Proposals for cooperation
G1 It is proposed that material providing an overview of ABS data management be sent to the BPS.
G2 Following G1, it is proposed that there be a visit to the BPS by an appropriate ABS expert to describe and demonstrate the ABS approach to data management.
In general terms, the ABS could summarise and demonstrate its approach to data management, and could offer to review the BPS data management requirements and practices and to suggest approaches that the BPS might wish to adopt. More specifically, the ABS could discuss metadata models, including definitions of statistical units, populations, classifications, and data items; it could outline its proposals for handling the procedural and operational metadata associated with collections; and it could describe its data catalogue, thesaurus, search and retrieval mechanisms, and its ideas for subsetting and combining datasets, and for statistical integration.

G3 It is proposed that, during the visit mentioned in proposal G2, detailed plans for further collaboration would be established.

ABS coordinator: Mr Warren Richter,
phone + 61 6 2526430, fax + 61 6 2531093

H. Social Accounting Matrices

Relevant text of MOU
BPS will assist ABS by providing information on methodology and published information on Social Accounting Matrices. ABS will keep BPS informed on its progress in this field and officers will exchange views as appropriate.

Proposals for cooperation

H1 It is proposed that the BPS provide to the ABS copies of reports on methodology and published information on social accounting matrices.

H2 The ABS will advise the BPS and seek further assistance when it is proposed to commence work on social accounting matrices (although it is unlikely that this will be within the next two years, given the ABS's overall work program).

ABS coordinator: Ms Marion McEwin,
phone + 61 6 2527068, fax + 61 6 2531095
Regional Data

Relevant text of MOU

BPS and ABS will cooperate to ensure that regional data for Indonesian Eastern Provinces and Australian Northern Territory is readily available to government, business and the community in their respective countries.

Proposals for cooperation

11 The following information and material is proposed to be provided by the ABS office in Darwin to BPS offices in Jakarta and the 10 eastern provinces:

(a) Contact addresses and telephone numbers for all ABS offices.
(b) The ABS annual catalogue of publications and products and list of publications to be released.
(c) The Australian Year Book (hard copy plus CD ROM for Jakarta).
(d) ‘Northern Territory in Focus’ (the Northern Territory yearbook).

12 It is proposed that the BPS should supply to the ABS a year’s trade data on floppy disk. (The ABS understands that the BPS has this as a standard product, but is not sure of its contents. For the purpose envisaged it should contain bilateral trade data classified by province for Indonesia and by state/territory of Australia.)

The relationship between the work required under this proposal and proposal 15 below, and the work required under proposal A1 relating to comparison of data on bilateral trade between Indonesia and Australia, will need to be carefully considered.

13 It is proposed that holdings of information and material by both the BPS and the ABS would be updated periodically.

14 The ABS office in Darwin proposes to produce:

(a) A chapter in ‘Northern Territory in Focus’ about Eastern Indonesia.
(b) A summary publication about the 10 eastern provinces.

15 In addition it is proposed that the ABS and the BPS collaborate in exploring the possibilities for establishing a database of Australian state and territory and Indonesian provincial trade data, concentrating on the Northern Territory of Australia and the eastern provinces of Indonesia.

ABS coordinator: Mr Zia Abbasi,
phone + 61 89 432130, fax + 61 89 811218
J. Exchange of Documentation

Relevant text of MOU
BPS and ABS will exchange on request copies of questionnaires and other documentation relating to their collection.

Proposals for cooperation

J1 It is proposed that requests will be made by the BPS and the ABS whenever appropriate.
A considerable amount of documentation has already been exchanged in relation to cooperation in individual fields of statistics. Proposals for further exchanges are noted above in connection with proposals for cooperation in a number of fields of statistics.
Appendix 2

Memorandum of Understanding between the Australian Bureau of Statistics, Australia and the Central Bureau of Statistics of the Republic of Indonesia concerning cooperation in the field of statistics

The Australian Bureau of Statistics hereinafter referred to as ABS and The Central Bureau of Statistics of the Republic of Indonesia hereinafter referred to as BPS –

Desiring to promote favourable relations of partnership and cooperation in the field of statistics;

Recognising the importance of the principles of equality and mutual benefits;

Pursuant to the prevailing laws and regulations in their respective countries as well as the procedures and policies of technical cooperation;

HAVE REACHED THE FOLLOWING UNDERSTANDING

OBJECTIVE

1. The objective of the cooperation under this Memorandum of Understanding is to contribute to the provision of high quality, relevant and timely information to assist decision making in both countries, by governments, business and the wider community.

AREAS OF COOPERATION

2. The BPS and ABS will cooperate in the field of statistics covering the areas of:
   
a) International Trade Statistics
b) International Investment Statistics
c) Labour Market Statistics
d) Services for Clients and Data Users
e) BPS Network Development
f) Glossary of Terms and Mutual Understanding
g) Metadata Management
h) Social Accounting Matrices
i) Regional Data
j) Exchange of Documentation
INTERNATIONAL TRADE STATISTICS

3. BPS and ABS will:
   a) Adopt standard international classification of trade in goods and services to the extent feasible;
   b) Develop an understanding of the extent to which Indonesian and Australian bilateral export and import data exclude goods that pass through a third country, or include goods that are sourced or destined for a third country ('the entrepot issue');
   c) Exchange information on developments in the methodology for processing of international trade statistics and measuring trade in services between Indonesia and Australia; and
   d) Compare:
      i) BPS data on exports to Australia with ABS data on imports from Indonesia;
      ii) BPS data on imports from Australia with ABS data on exports to Indonesia.

INTERNATIONAL INVESTMENT STATISTICS

4. ABS will assist BPS and other related Indonesian government institutions in understanding ABS methods of deriving international investment statistics. In particular, ABS will assist in specifying data to be collected on international investment flows to and from Indonesia, and assist in assessing the accuracy of any statistics subsequently compiled.

LABOUR MARKET STATISTICS

5. ABS will assist BPS in improving Indonesian labour market statistics, notably from the labour force survey.

SERVICES FOR CLIENTS AND DATA USERS

6. ABS will assist BPS to:
   a. develop procedures to establish the range of clients and data users that BPS serves, and to establish and assess the needs of those clients and data users;
   b. design appropriate products and services to meet the identified needs of the clients and data users.

7. ABS will endeavour to include, in its periodic publications containing international statistics, key and up-to-date BPS' published statistics.
BPS NETWORK DEVELOPMENT
8. ABS will advise BPS on the advantages and possibilities of an integrated communication network within individual BPS offices and as a system to link all BPS offices.

GLOSSARY OF TERMS AND MUTUAL UNDERSTANDING
9. BPS and ABS will cooperate to produce a common Indonesian-Australian statistical glossary. ABS will assist as required with the English expression used in the BPS publication.

METADATA MANAGEMENT
10. ABS will assist BPS to develop policies and systems to manage BPS metadata to improve the consistency of statistics drawn from different sources.

SOCIAL ACCOUNTING MATRICES
11. BPS will assist ABS by providing information on methodology and published information on Social Accounting Matrices. ABS will keep BPS informed on its progress in this field and officers will exchange views as appropriate.

REGIONAL DATA
12. BPS and ABS will cooperate to ensure that regional data for Indonesian Eastern Provinces and Australian Northern Territory is readily available to government, business and the community in their respective countries.

EXCHANGE OF DOCUMENTATION
13. BPS and ABS will exchange on request copies of questionnaires and other documentation relating to their collection.

RESOURCES AND FUNDING
14. The implementation of activities under this Memorandum of Understanding will be dependent on the availability of appropriate resources and funding.
CONSULTATION

15. Any difference arising out of the interpretation or implementation of this Memorandum of Understanding will be settled amicably by consultation or negotiation.

16. This Memorandum of Understanding may be amended by mutual consent of BPS and ABS through an exchange of correspondence between the Director General of BPS and the Australian Statistician.

DURATION

17. This Memorandum of Understanding will come into effect on the date of signing and will remain in effect for a period of 5 (five) years and will be extended on the basis of mutual consent.

18. It may be terminated by written notification of either BPS or ABS and such termination will have effect 6 (six) months from the date of the receipt of the notification.

19. Should this Memorandum of Understanding be terminated, the arrangements agreed upon by BPS and ABS will remain in effect until such time as the implementation of these arrangements has been completed.

IN WITNESS WHEREOF, the undersigned, have signed this Memorandum of Understanding.

SIGNED at _________ on _________ of September in the year one thousand nine hundred and ninety five, in two originals in English language, both texts being equally authentic.

For Australian Bureau of Statistics, For Central Bureau of Statistics,
Australia Republic of Indonesia

W. McLennan Sugito Suwito
Australian Statistician Director General
The focus of this paper is the framework for intergovernmental management. I want to make a few comments on what we have in terms of a framework from three angles: the political framework, the defence framework and the economic framework. With the political framework there is not much in terms of institutions or formal structures but it is more a question of shared political will. That is, over the past several years there has been a huge solidification of the relationship – a relationship which is obviously volatile from time to time but nonetheless successful in maintaining a consistent direction. I think both the Australian and the Indonesian governments have had two shared commitments: the first has been to keep moving ahead despite difficulties and the second has been to strengthen the relationship. In other words, the aim is to keep the focus on the bigger picture despite acknowledged differences of views and the obvious difficulties that arise. The second commitment adds

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1 Michael Potts is Assistant Secretary, Commonwealth Department of Foreign Affairs and Trade, Canberra.
ballast to the relationship and spreads it into a variety of new fields so that if one particular field is in difficulty – normally the political field – then the ballast in the other compartments will keep the process moving ahead. These tactics have been largely successful so that a number of incidents which previously caused major problems, for example, the David Jenkins story, the First Family and so on, are much better able to be managed than previously. The Mantiri affair (the flag-burning incidents a couple of years ago) caused a significant rupture in the relationship but nonetheless we managed to keep moving forward; similarly, the aborted nomination of Miles Cooper as Ambassador to Indonesia. Had these things come up a decade ago, the relationship might have gone into neutral but that is no longer the case.

Earlier, Frans Seda mentioned the importance of personal relationships in any larger bilateral relationship and obviously the Suharto-Keating relationship is quite well known. It was a surprising relationship but it worked very well, probably partly because the two men were very much big-picture people. With the change of government in Australia, the Indonesians were very keen to see what it meant for them and what it meant for the bilateral relationship. Also it is instructive and important to see how the Howard government shaped up to that: Alexander Downer’s first overseas visit was to Indonesia; Tim Fischer’s first overseas visit was to Indonesia; and the Prime Minister’s first overseas trip also included Indonesia, so from there a very clear message. The Indonesians took very keen note of that and they were hugely reassured. After all, historically, Indonesia has a more catastrophic view of a change of government. Also, they tend to assume that governments change, that there is no continuity in government policy. When the opposite came to pass it was a fundamental reassurance for Indonesia. They would also have seen government statements – the language – the government says that Indonesia is fundamentally important to Australia. So the message has come through very clearly. That message will be reinforced when the White Paper on Australia’s foreign policy comes out later this year – Indonesia will be up there in lights.

In terms of political institutions for managing the bilateral relationship, there is not much in the way of formal activities.
Most activity is carried out on an informal basis. There are very frequent meetings between the two Foreign Ministers, Mr Alatas and Mr Downer. Officials hold frequent talks on a whole variety of topics within different government networks including economic issues. On the formal side we have a number of government-to-government agreements also. The Timor Gap Treaty, the Maritime Delimitation Treaty signed in Perth in March 1997. There is a forthcoming Treaty on Nuclear Cooperation and there is the Keating-Suharto Agreement on maintaining security signed in December 1995.

The defence side is much more formalised and a number of different networks operate. These take place, first at ministerial level, then at the senior uniform level, and include frameworks for joint exercises, for military exchanges and for consultations. The entire formal structure works well and has led to a much better understanding by the two government departments — Hung Kum on the Indonesian side and the Australian Department of Defence and also between the two Armed Services.

If we include the economic dimension, the structure is very well developed. It comes back to the point made earlier about the expansive nature of the relationship. A strategic decision was taken about seven years ago to develop the economic side of the relationship. The reasons are, first, there is significant potential, second, there are commercial gains on both sides, also there is this notion of trying to further enrich the relationship, particularly the focus at a people-to-people level in areas such as education, tourism and so on. That led to an agreement by the two governments to establish the Australia-Indonesian Ministerial Forum as the peak body for the relationship, with a specific focus on the economic side. The Forum meets every two years: it is a collection of senior ministers. The third Ministerial Forum was held in Jakarta in October 1996 and on the Australian side the ministers who attended were Alexander Downer, Tim Fischer, John Moore, Dr Michael Wooldridge, Senator Robert Hill and John Sharpe. Even listing the attendees gives an idea of the breadth of the relationship. There were seven Australian

2 Amanda Vanstone attended earlier in that same week.
ministers in Jakarta in the one week which shows the political commitment on the part of the Australia government to nurturing the relationship.

The Forum supports a total of eleven working groups which essentially function department-to-department, although the boundaries are never as completely clear-cut as they might be. The working groups are sectoral and focus on education and training, health, the environment, transport, tourism, science and technology and so on. Each working group has its own individual working pattern. There is no blueprint laid down from above so it becomes reasonably organic. There is obvious commitment to having an on-going work program and the pattern of work tends to be intercessional with a sort of agreed work plan that focuses on deliverables to the Forum every two years. Also, the Forum has brought the commitment of political will – the ministers are brought together every two years, which means that they need to have something to deliver. This helps to focus the working groups into actually getting some runs on the board to be announced at the Forum. In a sense the Forum brings in the ability for political influence to deliver practical results and that gives a whole discipline to the relationship, and adds momentum to it also.

The other very positive aspect of the Forum process is that it leads to a much greater interchange between Indonesian and Australian government departments. If we look back twenty years or so, a lot of the government-to-government contacts were conducted through the medium of the embassies in the respective countries. But, now we have moved beyond that. Departments communicate with each other by phone, teleconference and fax which helps to minimise language misunderstandings, and increasingly via the internet. Over time, close personal relationships between counterpart departments have developed. The way forward has been set by the Commonwealth Department of Transport and Regional Development which has developed close relationships with the Indonesian Department of Communications, and some people are involved in the Darwin contact group.

Let me turn now to this curious creature called the Australia-Indonesia Development Area (AIDA). It sprang unheralded in the
lead-up to the last Intergovernmental Forum. It emerged from a political approach to Australia from Minister Hartarto the Indonesian Coordinating Minister for Production and Distribution. Hartarto approached the Australian embassy and requested a special arrangement with Australia which involved a focus on Eastern Indonesia, with business involvement and with similarities to (but not closely modelled on) some of the earlier subregional arrangements that Indonesia and Australia had participated in on other occasions. Mr Hartarto particularly mentioned BIMP-EAGA. The Northern Territory was involved early on with Eastern Indonesia – in fact Hon. Eric Poole was there at almost the same time that Minister Hartarto mentioned the AIDA proposal to him. In one sense, the AIDA proposal was building on the whole Northern Territory-MOU process that has been under way since 1992. Built on the MOU, but in a different context. It is quite clear that the AIDA proposal came with the blessing of President Suharto, and in many ways the Indonesian proposal is a gesture of comfort to the Australian government. In the same way, perhaps, that President Suharto endorsed the maintenance of security during the period when Paul Keating was Prime Minister. AIDA is a sort of offering to the new government and a sign of comfort and goodwill. Also the political reaction in Australia has been very positive and rapid.

Initially, the proposal was pretty vague and it did not have much in the way of ‘legs’. Second, in the beginning the question of geographic scope was an issue. Dr Frans Seda has laid out the differing definitions that arose as to what regions actually constitute the eastern part of Indonesia. That is, how many provinces are we really talking about? In the beginning the President’s concept included Java as well as virtually the whole Republic, apart from Sumatra. But in the end and for some weeks Bali was included and then excluded: Eastern Kalimantan was ‘in’ but not the rest, and we had a movable feast. Eventually they settled on the Republic of Indonesia minus Java and Sumatra and people appear happy to work on that basis in the first two or three years and then see where to go from there.

On the Australian side, the accepted scope from the beginning has been the whole of Australia. There are good commonwealth-state reasons for not wanting to pick and choose. But, in a sense, if
we go down any other track, based on longitude, latitude, or whatever, we get the sort of untidiness which comes from including part of a state but not all of it and so on. So, for practical reasons from the outset the whole of Australia has been included but with the presumption that the states would follow their own interests and that participation levels between the different states might vary.

The third element has been the work on defining what AIDA is really all about. This process is still ongoing and needs further discussion. Certainly, following Dr Hartarto’s approach to Australia there is a very positive response from our side – very much a political response – and, the two Ministers, Downer and Hartarto announced the intention to move ahead with AIDA during the Ministerial Forum in October 1996.

The vehicle for moving things forward was the establishment of a Special Working Group. It was tasked to define and to scope the proposal and to report to the two Ministers, Downer and Hartarto: the shepherds of the process. The entire scope of defining AIDA has fallen to this special working group.

On the Australian side, the membership is tripartite. There are a number of people and departments led by the Department of Foreign Affairs and Trade (DFAT), including the departments of: Transport; Industry, Science and Technology (DIST); Education; Immigration; AusTrade and AusAID – then there are the states and territories. The most active membering states are the Northern Territory, as we would expect, then Western Australia, Queensland and New South Wales. Most important is the business component led by the Australia-Indonesia Business Council Company – Rob Hogarth is President. BHP, Henry Walker and also the MTIA. On the Indonesian side, the membership is drawn, first, from Minister Hartarto’s office led by Bapak Bukum Harap, assistant to the Minister. There is representation from the Foreign Ministry, from the Department of Home Affairs, from Bappenas, the Planning Board, Dr Frans Seda of the special working group, and there is representation from Kadin, the Indonesian Chamber of Commerce and Industry – very ably represented by Iman Taltik.

From the Indonesian side the Council for KTI is not at this stage part of the Special Working Group, nor at that ‘first’
meeting were the provinces. Key departments, such as Communications are not yet participants. From an Australian perspective we would like to see wider representation but that is up to the Indonesian government.

The Special Working Group met in Lombok in late February 1997. In the lead-up to that meeting DFAT did a lot of work – we had people working on AIDA for five or six weeks, and they came up with all sorts of conceptual models. It was rather useful but at the end of the day things moved beyond the ‘theoretical’ and on to more straightforward issues of greater interest to business. Nonetheless, the early conceptual work laid down one particular marker which was very important; notably, the importance of keeping our expectations at a realistic level. We are very conscious of the number of synergies between the eastern part of Indonesia and Australia in the first instance. Second, there is not much government money aid available at the moment. We also felt that if we were too ambitious from the beginning that would tend to handicap and overburden the new body.

At the Lombok meeting we agreed on a number of core issues which were considered to be conceptually important. One was to focus AIDA on improving the enabling environment for private sector activity and then expanding further. What this really means is identifying the challenges and constraints to private sector activities, working together to cooperate practical solutions for these problems, with the private sector as the prime mover but with governments as facilitators. The proof is obviously in the outcomes but at least we now have a shared understanding of the sort of background framework for AIDA.

One special highlight of the first meeting of the special working group was the suggestion from Indonesia that besides the meeting of the working group, as a whole, the business representatives who attended ought to have their own meetings. That proved very successful and in fact it moved the agenda further forward than we had expected. A meeting between the business representatives and the state and territorial representatives resulted because they have their own natural business constituencies here, in Australia. They identified a framework for addressing issues of special importance to them, listing a range of issues that they identified as constraints – issues
that required early attention. That is one of the key checklists against which process, under AIDA, can be identified and measured. The first move was to identify the action list; second, was that the business community establish five sectoral working groups on transport to build on an existing transport working group under the Forum. That group has a special focus on the eastern part of Indonesia; education and training, followed by mining and energy; then, agriculture, fisheries and animal husbandry and, last on tourism.

Each of the Australian co-convenors of these working groups, are mostly from the state and territory governments and preliminary work is underway. A lot of networking has begun and the aim is to identify who would be able to contribute usefully to the particular groups. The working group on agriculture, fisheries and animal husbandry has as its Australian co-convenor Patrick Markwick-Smith from the Department of Asian Relations, Trade and Industry in Darwin. The Northern Territory has particular expertise in these areas and in fact – obviously, across the five working groups, the Territory will be playing an active part. It is fair to say also that Patrick is moving his working groups on as the trailblazer for the others. From the Indonesian side Kadin, the Chamber of Commerce and Industry, is identifying Indonesian participants and we are moving on from the informal exchanges.

The end-game now is to succeed with AIDA. In October 1996, when ministers made their announcement that they wanted to launch AIDA, they were talking in terms of eight to nine months which implied a launch at the end of June or July 1997. But, the Indonesians interestingly sought to move that forward to April 1997. Australia was more than happy to respond to this; that showed a high level of commitment from both Indonesia and Australia. Minister Hartarto’s office approached us and suggested a ministerial launch late in April. Mr Downer had discussions with the Prime Minister who then gave his approval for Mr Downer to travel to Indonesia. To bring that about we had to have a second meeting of the Special Working Group, that took place the week beginning the 7th April. Now, we must move forward with the very useful work done by the business representatives at Lombok, and then Ambon, and ensure that
these working groups — the sectoral working groups — are up and running with a built-in agenda. And identify particular constraints which affect business across the board, at least in the eastern part of Indonesia, notably, those identified as priority areas for early attention, and early results. Both governments understand that AIDA will collapse unless it delivers results fairly early. So, there is a high political imperative in terms of identifying areas which we know both to be difficult but also potentially solvable. We must have a set of built-in target dates that can be identified for finding solutions. That is what we expect to see happen after the Ambon launch of AIDA.

For people who want to maintain contact on AIDA we, in the Department of Foreign Affairs and Trade, are certainly happy to be consulted, but by the same token you will find also that DARTI is certainly a logical first point of contact here in Darwin.
The reason for my being involved in these proceedings stems, to a significant extent, from the fact that I am on the Simons Committee, established to review the Australian Overseas Aid Program, and also on the Advisory Panel on Foreign and Trade Policy for the preparation of the White Paper on Foreign Affairs and Trade Policy. When we set these proceedings in place I expected that the Review would probably have been made public in which case I might offer some perspectives on the issues contained in this volume that are derived from the way that we approach the whole set of issues about aid.

I will tell you something about the Review and the big issues that we grappled with and then make some essentially personal comments on some issues particularly pertinent to this set of questions surrounding Eastern Indonesia. Eastern Indonesia is a relatively poor region, however it is defined, within a nation that is, itself, regarded as essentially developing.

The Review of the Aid Program was announced by Alexander Downer, as the then, relatively new Minister for Foreign Affairs,

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1 Cliff Walsh is Executive Director, South Australian Centre for Economic Studies, University of Adelaide and Flinders University of South Australia.
and he had, of course, brought back into sharp focus what had, under the Keating Government, been a separate junior ministry dealing with development cooperation. Minister Downer brought it back under his portfolio with a Parliamentary Secretary to handle the day-to-day issues. Mr Downer announced the Review in June 1996 and we began work in July, effectively, and we were initially asked to report within about six months. That did not happen for reasons that I will explain. The fact that the report of the Review team was delayed was not a source of particular tension in the system – the Minister consistently emphasised that he preferred quality to meeting particular dates on the issue. The release date was determined by the Minister for late April 1997.

The Terms of Reference that he gave to the Review were very extensive but I think that they can be very simply summarised as asking the questions:

Are we doing the right things in the right places?

Could we do them better than we already are?

That is: effectiveness is arguably the primary issue – which itself begs lots of other questions about objectives and so on. In the Minister’s speech at the time that he announced the Review we were explicitly told, in effect, that the volume of the Aid Program was not an issue that he expected us to be concerned with. Cabinet decides how much is to be spent. We were reasonably faithful to that, but it is difficult to walk past the fact that Australia has had a commitment to spend 0.7% of its Gross National Product (GNP) for a very long time and yet, consistently, since that target was established as part of a global pledging that goal was never reached. We have, instead, been on a downward trend. Australia now spends about 0.29% of GNP. The credibility of that sort of targeting has to be regarded as marginally dubious.

The three person committee consists of Paul Simons, Chairperson (formerly Executive Chairman of Woolworths), Gaye Hart (Director of the Hunter Institute, formerly the TAFE College System, in NSW), and Cliff Walsh (Executive Director of the South Australian Centre for Economic Studies, University of Adelaide). It is a part-time committee with a very small secretariat, effectively three senior people available for writing, debate and so on, and a couple of support staff, drawn from within AusAID but unquestionably very independent-thinking.
people. The committee process remained essentially independent of AusAID. We made much use of AusAID, but on our own terms and valued the input given in terms of information, debate, discussion and support to the process.

Paul Simons and I were relative ‘clean skins’ in the Aid game. In my prior role as adviser to a former Prime Minister, I certainly had to get across a large number of issues associated with development cooperation, international trade and so on. As an economist largely focused on federal/state issues this was a steep learning curve and I believe Paul Simons has also been on a very steep learning curve. Gaye Hart had some experience within the NGO movement – in former parts of her life – especially through UNESCO Australia. But although we came to this without baggage we took quite a long time to really understand what the Aid Program was all about and to get out into the field and learn.

Basically, the magnitude of the Review was absolutely enormous. We had to make visits and look/see what it is that Australia is doing in its Aid Program. We have visited, collectively or in small groups: Papua New Guinea, Fiji, Kiribati, Indonesia, Philippines, Vietnam, Kenya, South Africa and India. We have held discussions with other donors in the United Kingdom, Denmark and Japan, as well as taken opportunities in Australia and elsewhere on our trips to talk with other donor countries too. We called for submissions – we received about 250 – and held consultations around the country with a wide cross-section of interest groups and others who put in particularly interesting or challenging submissions. That included the Northern Territory Government who, through DARTI, put in a comprehensive submission, with some specific focus on how we might do things in Indonesia and in South East Asia generally, better. Of course we then had to write a report which reflects on and weighs up what we saw.

It’s been an exhilarating experience and an exhausting one and also, in my opinion, an important one. Aid or development cooperation is not an issue that often gets to the forefront of political debate – it certainly does not seem to be an issue that wins or loses seats at elections. It does not even grab media attention except when things go wrong, for example the CARE blowup a couple of years ago and more recently the Papua New
Guinea treaty on development cooperation. Momentarily, people noticed that it existed and thought that Australia might use that as a weapon to do something about the mercenary situation. In fact one of the most interesting indicators to me during the period of the Review, about what people or the media think about the Australian Aid Program, is that the Pauline Hanson speech actually had three ‘A’s in it: the Asians, the Aborigines and the Aid Program. Did you ever see any media reference to the fact that she had a go at the Aid Program? Nobody cared; it just was not significant enough to run with, at any stage. That seems to be, at one level, rather sad, despite being rather comfortable for the Aid Program. What it reflects is that support is essentially ambivalent toward the Aid Program. That might be a good thing, it might make us feel good – we can see that there are some benefits to Australia – yes, we should be in it but, if you cut it we are not going to jump up and down for more than a second. If somebody stuffs up, we will take notice but there are many more exciting and interesting issues.

This ambivalence towards aid, in a sense, makes reviews of it potentially rather more important. We have an opportunity here to reassure people that aid is indeed fulfilling its rationales – humanitarian, commercial, strategic and so on. There is at least some element in our Terms of Reference that asked us, challengingly, to think about how we might be able to help improve on knowledge of and education about the Aid Program.

This is the first comprehensive Review since the Jackson Committee reported in 1984 and that in turn, was the first really comprehensive Review of Australia’s Aid Program since aid, as we now know it, became a major international activity in the post war period, or in the 1950s, to be more precise. There are some big differences in what is happening in the Aid Program since Jackson – not only have we been on a continuing downhill slide in terms of volume of aid, on average, but there are some changes in thinking about development assistance, development cooperation, a much stronger emphasis on good policy and good government as being fundamental to aid actually being worth giving at all. A much stronger emphasis on the importance of capacity building within the institutions of government and elsewhere in recipient countries. The increased significance of
community participation in the projects and aid programs and that as part of an increasing emphasis on helping civil society to grow in the developing countries that we are helping.

Within the Aid Program itself, one of the most fundamentally important questions to be asked is, what do we think the objective, or objectives, of the Aid Program are?

The Jackson report referred to a triple mandate for the Aid Program — that it was about humanitarian, commercial and foreign policy interests. There are two questions about that which I personally find very interesting.

First, on a general level, did Jackson mean, by mandate, that these are the rationales for the Aid Program — or did he mean that these are the objectives for the Aid Program? Those two things are quite different. The fact that you have got multiple benefits that flow out of the Aid Program, all of which constitute part of its rationale and its mandate, the support for it and so on; does that mean that you necessarily have a multiplicity of objectives for the Aid Program? Or is there one overarching operational objective for the Aid Program that is about assisting countries to help themselves through the developmental process, and that the rest of it is essentially a spinoff from it? Those spinoffs are much more likely to occur, as you would expect, if we are doing things within our own region because there are strategic interests as well as our commercial interests, that are much more likely to be promoted.

This matters because what you do in the Aid Program is going to be driven by a clear, single objective and everything has to be tested against that objective and no other. If there is, for political reasons, a desire to do something you might not otherwise have done, then at least there is some way of putting to the political decision makers what the cost is, in terms of your fundamental objective. At the end of the day they are the decision makers, they have the legitimate right to intervene and we would be naive to think otherwise. At least let us keep them honest in a slightly tighter framework. We have grappled with those sorts of issues.

Once we have settled on exactly how you want to think about the objectives, then we turn to questions like: what is the appropriate geographic focus of the Aid Program? Where should we be giving aid? In principle, do you think what you do is run down a list and take the very poorest countries measured not just
in income terms, but in terms of lots of other indicators of the quality or lack of quality of life and health and so on and line them up and tick them off in the appropriate order. Of course, that is naive as well, because there are a lot of other practical issues and the reality is that our aid budget is about 1.4 billion dollars, of which 300 million dollars is pre-committed to Papua New Guinea, so we are talking about a relatively small amount of money.

Jackson made the point, at the time that he was reporting, that there were over seventy-one bilaterally assisted countries, including PNG, and that this was too many. Exactly how you count these things has proved to be a bit of a puzzle to us. Today, on a similar assessment process we are assisting about sixty-two countries. Of course, some come in and some go out. Sixty-two is about a 14 per cent reduction. We have made a significant reduction and managed to do what Jackson wanted and sharpened the focus. Is that enough? What is the right number of countries?

In the Australian case – in fact our Terms of Reference say – the Asia Pacific region will remain an important part of the focus, a priority area. That gives us about sixteen Pacific countries before we start. A list of sixteen before we even start changing our focus into the rest of the Asia Pacific region, and other areas of the world, such as Africa and South Asia, where many people say we have a legitimate interest in development terms as well as in trade terms.

So the set of questions about what are the filters we are going to use to decide who it is we do give the money to, and how much we give is important. The other side of this coin is the word that Hal Hill used, ‘graduation’. That is the flip side of the geographic focus issue. The ultimate objective of aid, presumably, is to enable countries to get to a point where growth is self sustaining and no longer needed, especially given that we have limited resources, not only in Australia but globally, to put into development assistance. Graduation, when it is possible, is important, to free up resources for other still needy cases. How do we decide when its time to start graduating? Indonesia is a good case for asking that question. Observe the list of the countries of the world, their rates of growth, their levels of income,
particularly those within our program and, clearly, Indonesia is not a wealthy country; clearly Indonesia has some regions which are particularly not wealthy. But Indonesia is a country, which if we had been in the process of graduating, Malaysia and Thailand, is obviously going to be on the list of countries that are included. But do we have a set of criteria that determines the position of each country within that graduation? – what is the process that we use to actually achieve graduation? Is the question of graduation, within the Aid Program, so much an art that we cannot possibly set up criteria that can be used or, can we set up some formal criteria and work our way through? Are there strategic issues that overwhelm everything else? Would that be true of Indonesia again, as one of our very nearest neighbours? Would we be more hesitant about even thinking about talking to them about graduation than others? These are interesting questions.

Finally, in terms of big issues, there are a whole series of issues about central focus. If we know where we want to provide developmental cooperation, how do we decide what it is that we want to do or what form should it take? For example, we have made it very clear, now even in relation to PNG, that we do not want to simply hand over money. Australia wants some participatory process in which we are defining, jointly with recipient’s programs, projects that we believe will positively contribute to their development, that we mutually agree on. What sort of central focus do we think is good? Again there is a series of complex issues here including what others are doing in terms of development cooperation in these countries.

As mentioned earlier, there is a lessened emphasis on simply doing things, especially handing over money. There is an increased emphasis on going in with technical assistance, with assistance to building institutional and human resource capacity, encouraging community participation. All of these things de-emphasise what people might have in their minds as to the objectives of an Aid Program. The agenda of an Aid Program must be considerably wider, by international agreements, than roads and bridges. The role of women in development for example, has shifted the emphasis to include a number of issues. Plus, now we must also consider the environment, an emphasis
on human rights, the importance of dealing with cross border health issues and so on. The international agenda is actually now giving us ‘goal saturation’. There are too many things out there that aid is expected to be able to do for Australia or for the recipient countries – we really put the Aid Program at risk of failing to meet its most fundamental objective – the objective of assisting sustainable, economic and social development in recipient countries. I know that we tend to get some cluttering of goals over the Aid Program – I think it is quite important. Indeed the AIDA proposal provides us with another framework with which to support our expanding objectives within the Aid Program.

One issue that I now wish to raise is what sort of level of decentralisation or devolution in monitoring of activities or even in decision making about desirable activities is most likely to promote both effectiveness and flexibility in the program? The Australian way has evolved over time – we do it differently, for example, to Britain and the United States. The British have overseas divisions with high levels of delegation of authority over programs, and so on. Also there are different models and it might be quite important for us to think seriously about whether the model we have, in terms of where decision making, authority and where monitoring activities and so on lies, is the most appropriate. What are the core functions of head office in Canberra and what are the appropriate functions of the people out in the field? That is the sort of issue that has been raised for us to have a think about. Obviously, in six months we could not possibly fully answer all of those questions and, in some cases, we obviously will have to point in directions that we think are the right ways to go and leave it up to government and to the organisation to decide.

I now want to turn briefly to the main topic of the theme of the proceedings to some issues related to rethinking the Aid Program particularly economic development in Eastern Indonesia and the role of the Aid Program.

During the Review process we visited Indonesia including parts of Eastern Indonesia. We went to Kupang and, there, focussed on the Eastern Island Veterinary Services Project, met many of the locals trained and given the expertise. Our team had
discussions with people involved in running women’s health and family planning projects, went to Flores where the water supply sanitation reconstruction and development project is operating, we visited villages participating in and actually building connections into the main system, and so on – very impressive. And we observed language laboratories as an example of some of the small activities schemes – language laboratory in a local school. In Bali we held discussions with people operating a major HIV AIDS project. We had consultations in Jakarta with officials, including the Cabinet Secretariat, the Ambassador and senior AusAID staff, however again, much of that was dominated, in many respects, by the focus on Eastern Indonesia. I was impressed in Indonesia, and Eastern Indonesia in particular, by the degree of community participation and enthusiasm that we witnessed. The energy, enthusiasm and professionalism expressed by team leaders and from local counterparts as well as from the AusAID senior representatives was gratifying.

The reason for the focus on Eastern Indonesia is not just that Eastern Indonesia is nearest to Australia. But rather that there is a divide between those who have access to resources and those who do not. The divide, to a significant extent, is shaped around the fact that some regions are faster growing in economic terms, even if there is some redistribution going on within the system.

The obvious response to those divisions is that we should devote our aid effort primarily to the regions that are not sharing as much in the growth: that are not attracting private capital. While at one level that might seem obvious, at another level it actually contains a bit of a puzzle. The problem, it could be argued, lies at base: the countries themselves are failing to ensure that the relative wealth of some regions is shared more widely; and, resources or infrastructure that attract private sector capital are not being distributed as widely as they might be. In which case, the problem is that we lack the right sorts of fiscal structures domestically, and regional policy structures more generally, in the countries themselves. If that was the response you wanted to give then we should be saying to the recipient countries, not that we are going to put resources in large measure into these regions, but that we are prepared to put resources into helping you design the sorts of tax systems, fiscal systems and policy structures that
will ensure that in future they do share appropriately in economic growth and development.

However, I accept the fact that such a policy would be seen as, potentially, somewhat naive. We are dealing with nations that, on average, are relatively low income and, in an aggregate sense, appropriately, aid recipients. Aid to the least developed regions looks like the most effective aid that we can give. By the same token extreme regional differences can be a big threat to development sustainability – not least because political instability and political stability itself is clearly a precondition for sustainable development and equitable access to resources. Equitable access to political influence and self determination are all preconditions to political stability and political viability. While helping to establish more effective regional redistribution mechanisms and regional policy structures may be important, it is clearly a longish term activity and, in the meantime, we cannot let development opportunities languish. Through the way the Aid Program is run, we can at least get some co-financing from otherwise centralised resources, which is another part of the redistributive process itself.

On balance I would have to say is what we should probably be doing is a mixture of: pressing central government to be more regionally redistributive or regionally focussed in its own activities and helping it to be so; while also accepting a share of the burden of securing, in the meantime, a sharper focus on the disadvantaged regions. I personally suspect that we need to be rebalancing our focus so that attempting to change central government policy focuses/practices with respect to regional development, attracts much greater weight in our aid activities than I think appears to me to be the case at the moment.

It is also important to recognise that the capacity of some provincial, local and national governments, more generally, is the key to successful regional development and projects agreed to by national governments can help to build that local or provisional capacity as part of the design to assist with community involvement. It might even be possible to negotiate arrangements in which AusAID can work more directly, including in the selection and design of projects, with provincial and local governments themselves.
One of the reasons for wanting to raise that is because, maybe, in the context of Indonesia, this may be a useful way to deal with AIDA. Part of the quid pro quo might be more freedom to deal directly at sub-national level the connections at sub-national level look like they are increasingly important.

Relatedly, the lesson we have surely now learnt about development cooperation, and aid programs in general, is that it is not just building the capacity of government, even down to local government levels. What we need to do is build the capacity of local structures to support civil society be a self sustaining economic and community development level. It is clearly also going to be important to get other changes into the system. Attracting private capital and building relevant regional infrastructure may be the key factors in regional economic takeoff but, really, the precondition for building private and public investment confidence is that there is a reasonable degree of local autonomy, local administrative and political capacity, and local interest/local community participation in the whole process. Our Aid Program needs to be much more aggressive in terms of policy dialogue and in terms of laying out our understandings of the ways we promote economic development.

One final observation about AIDA – if we fail with AIDA that could be extremely damaging to our relationship with Indonesia in a wider sense. It seems to me to be a fundamentally important thing for Australia to be doing, to be using the great strength that the Northern Territory has developed in the region to ensure that AIDA succeeds.
OVERVIEW OF THE MEMORANDUM OF UNDERSTANDING

Benefits and Future Directions

RICHARD MATHEWS¹

Since the late 1980s the Northern Territory has negotiated and signed over a dozen Memoranda of Understanding (MOU) or Memoranda of Cooperation (MOC) of various types with governments and authorities in Indonesia. The first Memoranda signed were in the field of education, and later MOUs were signed at government-to-government level to strengthen political and economic relations.

Between 1985 and 1987 MOCs were signed between the Northern Territory Department of Education and the Indonesian Department of Education and Culture, to formalise teacher and student exchange programs. These programs had begun in the mid-1970s with an annual exchange of teachers and students between the Northern Territory and Bali. The program was later expanded to include the provinces of Nusa Tenggara Barat, Nusa

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Tenggara Timur and Maluku. This pioneering student and teacher exchange program has been very successful over the years, and now involves up to five teachers and ten students each way, every year.

The Northern Territory University (NTU) began negotiating MOCs with universities in the eastern provinces of Indonesia in 1990. These MOCs are agreements to implement collaborative programs and staff and student exchanges and the NTU currently has MOCs with universities in Bali, Mataram, Kupang, Ambon and Jayapura and other universities in Eastern Indonesia (eg in East Kalimantan) are also interested in establishing similar cooperative relationships with NTU.

On 21 January 1992 the first major MOU at government-to-government level was signed by the former Northern Territory Chief Minister Marshall Perron on behalf of the Government of the Northern Territory, and Indonesian Foreign Minister Ali Alatas on behalf of the Republic of Indonesia. As Dr Frans Seda advised this morning, this MOU formalised both governments' acknowledgment of the strong cultural and social ties between the Eastern Zone of Indonesia (or Kawasan Timur Indonesia – KTI) and the Northern Territory and recognised the things that both regions have in common, such as a similar climate, similar natural resources, and isolation from the central base of government as well as recognising the complementarities which both regions have – such as the Northern Territory's high level of skilled manpower and technological expertise, and KTI's abundant supplies of unskilled but low-cost human resources.

Although both regions cover vast and relatively thinly populated regions, the biggest contrast is between the population sizes – 180 000 people in the Northern Territory compared to over 35 million in KTI.

This, among other contrasts, raises the interesting question of why the Indonesian Government decided to sign an MOU with a relatively small and isolated Territory of Australia, a neighbour to its south with which it had had a rather strained relationship during the mid-1980s.

Looked at from a political level, you have a national sovereign government signing a document with a sub-unit of a neighbouring sovereign state – and that sub-unit does not yet
even have formal provincial government status, but is still a Territory, whose laws, as we are seeing at present, can be overridden by the central government in Canberra.

The answer to this question has three parts:

1. The relationship between Australia and Indonesia in 1991/92 was improving rapidly, the Northern Territory had a long history of actively cultivating its own relationship with the provinces of Eastern Indonesia, and therefore the MOU with the Northern Territory was a recognition of this.

2. President Suharto was keen to see KTI catch up with the pace of development in the rest of Indonesia and he supported this MOU because of the promise it offered of improving the economic welfare of KTI and supporting this was the theory of sub-regional economic growth areas which was blossoming in the Indonesian bureaucracy, which argued that instruments were needed to overcome the problems caused by international boundaries which cut across traditional, pre-colonial trading patterns.

3. The MOU, as a document, had no international legal standing, and as such represented a relatively harmless commitment on both sides of best endeavours to achieve certain broad objectives. Neither side would actually be under any legal obligation to commit funds or resources towards implementing programs to achieve these objectives.

In other words, the MOU was a useful political tool, both to the Territory, and to Indonesia and it continues to be a useful tool, and will be developed by the Northern Territory in tandem with the development of AIDA.

Frans Seda explains the two values to the Indonesian Government of the MOU

- as a means to motivate Australian investment into Eastern Indonesia, and
- to use Darwin as a gateway to Australian and international markets for products from Eastern Indonesia.

As a political tool for the Northern Territory the MOU has been of inestimable value in assisting in the process of engagement with South East Asia and the value of MOUs has been exploited much further with the development of MOUs between the Northern
Territory Government and all relevant components of the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) and also with the provincial government of Bali.

In fact, in south eastern Australia the Northern Territory is often seen as leading the way with engagement in South East Asia because of its special political links with countries such as Indonesia. The level of commitment in Canberra towards engagement with South East Asia tends to fluctuate but in the Territory that level of commitment has always remained high because of the political reality of being closer to the region than to Canberra both in terms of geography, and perhaps in terms of outlook.

Benefits of the Memoranda of Understanding

If the MOUs are useful political tools to the Northern Territory, how have they given practical benefit to the Northern Territory economy?

This is a question which the Chief Minister looks at in his contribution to this volume. He particularly identified the 1992 MOU as having contributed towards the rapid growth in live cattle exports out of Port Darwin. The Chief Minister also notes how Bernie Ostermeyer of Bulk Transfer Systems acknowledged how the MOU had opened the doors for his business to develop its successful links with Indonesia, and Patrick Markwick-Smith also notes how the MOU benefits ordinary Territorians in education, training and in improving the quality of life of ordinary Territorians.

This latter point is important – the MOU as a political document has had an important social and cultural impact. It has strengthened the commitment in Territory schools for example, to develop the teaching of the Indonesian language. Being a former teacher of Indonesian, I have seen the demand for Indonesian language teaching rise and fall in the south-eastern states of Australia. In the wake of the Michael Jenkins article in the Sydney Morning Herald in 1986, which offended the Suharto family and the bureaucratic elite of Indonesia, relations between our two countries took a nose-dive, and the demand for Indonesian language teachers in Australian schools likewise fell.
After former Prime Minister Paul Keating announced the Federal Government's policy of closer engagement with Asia in 1991, the relationship with Indonesia has improved and demand for Indonesian language teaching in south-eastern Australia has picked up again but throughout these fluctuations the demand for Indonesian language teaching in the Territory continued to remain high.

Because of the Northern Territory's Asia focus and the symbolism of this created by the MOU, Darwin has become an attractive and welcoming place for people of Asian origin to live and work.

Darwin has also become a focus for Asian property investors although not yet to the scale of Perth. A frequently quoted percentage around town is that some 25 per cent of the population of Darwin are Asian or of Asian origin, a figure which Perth aims to reach in the year 2029.

Future Directions

The MOUs with Indonesia, with the Philippines Government, with the Province of Bali and with the component countries and provinces of BIMP-EAGA, have all contributed to a growing perception that Darwin is heading in the direction which the rest of Australia will inevitably have to follow, if it is to gain a recognisable and relevant place for itself in the dynamic South East Asia of the next century. This inevitability has long been recognised in the Territory, and has for some time been recognised in Western Australia. Other states, such as South Australia and Tasmania have recognised the Northern Territory's leading role by signing MOUs with the Northern Territory which open up the Northern Territory's network of contacts to their own businesses and agencies and the big three states of Queensland, New South Wales and Victoria are also beginning to 'discover' Asia.

The challenge for the Northern Territory now is to maintain its lead in engagement with South East Asia and with Indonesia in particular. While we may be able to have some success in increasing tourist flows, getting more Indonesian students to study in Darwin, and developing Darwin as a consolidation point and supply base for the mining industry in Eastern Indonesia, we
are up against some formidable competition, which may well eclipse us. Darwin, and the people of the Northern Territory especially, have some other comparative advantages which are worth developing. For example, the North Australia Research Unit, by developing a centre of expertise on links between Northern Australia and Eastern Indonesia, can make a strong contribution towards meeting the challenge of keeping the Northern Territory at the forefront of engagement with Indonesia.

Indeed, by further developing Darwin as the leading Australian centre of expertise, advice and intelligence on doing business in Indonesia, would be a worthwhile investment to make. The principle cost would be an investment in people, that is the cost of recruiting a range of experts who could develop a body of knowledge on doing business in Indonesia, which could then be made available to the Australian business community, perhaps for a small fee.

To be attractive to the Australian business community the knowledge and advice which the Northern Territory should make available should be broad but also industry or province-specific. For example, NARU or DARTI, or some similar body, could undertake studies on the mining sector or other sectors of opportunity in Indonesia, for the Australian business community and one area ripe for exploitation is to develop a series of reports on the economies of all the individual provinces of Indonesia done in cooperation with the Indonesian authorities. Such a series of reports would be the first source of information for Australian companies interested in exporting to or investing in a specific province of Indonesia.

The benefits to the Northern Territory of becoming a centre of expertise and intelligence on doing business in Indonesia – all of Indonesia, not just Eastern Indonesia – would be various.

- It would help the Territory maintain its leading edge in engagement with Indonesia.
- It would attract business to the Territory, because of the flow-on effects for example, of the need to come to Darwin to research your particular commercial interest in Indonesia.
- It would provide jobs to Territorians interested in a career in studying and researching Indonesia.
Such a centre of expertise on doing business in Indonesia could also undertake consultancy work for Australian firms, on a profit-making basis. Such a centre of expertise would also have political benefits for the Northern Territory in its dealings with Jakarta and Canberra especially if it were to be strongly supported in some form by the Northern Territory Government.

Establishing a Centre for Business Advice on Indonesia in Darwin, is just one idea of the way forward with the MOU we have with the Republic of Indonesia. The MOU is a useful political tool for opening doors for Northern Territory businesses into Indonesia, and ultimately it is the business community – with a little help from government – which will decide in which direction it wants to go in our commercial relations with Indonesia.
NORTHERN TERRITORY LINKS WITH INDONESIA

The Past Five Years and Future Prospects

THE HON. ERIC POOLE

When the Memorandum of Understanding (MOU) was signed with Indonesia in January 1992, the Government of the Northern Territory set out to achieve a number of objectives.

Many of these have been reached. The most significant success has been the growth in trade, especially the live cattle trade, with over 232,000 head of cattle, worth an estimated $108 million, being exported through Port Darwin in 1996. About 55 per cent of these cattle originated from the Northern Territory, the rest mainly being from northern Queensland. These cattle supply a fast growing fattening industry throughout Indonesia, including Eastern Indonesia.

I would like to review progress in three important areas – transport links, tourism and two-way trade – since the MOU was signed, and identify the key issues which need to be tackled in order to see further growth in those areas.

1 The Hon. Eric Poole is Northern Territory Minister for Asian Relations, Trade and Industry, Darwin.
Transport Links

Despite our problems of isolation and a small market in the Northern Territory, we have some significant transport links with Indonesia through Darwin. We have direct air links with Kupang, Denpasar and Jakarta. Through our live cattle export trade there are direct shipping links with a number of Indonesian ports, including Surabaya, Cilacap, Pontianak, Kupang, Ujung Pandang and Balikpapan. These ships, for example the ones run by Perkins and Rooneys Shipping, are often looking for extra cargo to and from their destination ports. And a new small trading vessel, the 500 tonne Fajar Kanguru, has recently begun servicing the Surabaya-Bali-Kupang-Darwin route. The next service is due later this month with a substantially increased container cargo for the Port of Darwin.

The first thing that needs to be said about transport links between Northern Australia and Eastern Indonesia is that we need more of them. But it is a chicken and egg situation: which comes first – the transport links or the trade? Exporters tell us they need regular, reliably scheduled shipping and air freight services before they can start trading successfully, but air and sea freight operators need to know that there is a market for them to service, before they can feel confident that the service will return a profit. Who is prepared to carry the initial risk of a new route?

As Dr Frans Seda mentioned, the Northern Territory Government did subsidise a shipping service from Darwin to south Sulawesi in an attempt to improve transport links with the region. But, once the subsidy stopped so too did the operation. However, the subsidy did not fail because it did encourage other operators to begin servicing nearby regions.

In fact, it led to an increase in the number of shipping services in the Asian region from one to 16 operators. But there is no denying that it was an expensive exercise, therefore governments should look for more innovative ways of reducing risk to freight service operators, and exporters. In particular, governments should look at ways of reducing the costs of operating new service; for example, by lowering port and airport charges, reducing regulatory obstructions, removing customs delays and so on.
We see this process working in the BIMP-EAGA region, so we should also work hard to make it work between northern Australia and Eastern Indonesia. Likewise, business should be more realistic in approaching new services; for example, new freight service operators should plan to give their service adequate time to get established before turning a profit, and more realistic efforts should be put into promotion of the new service. It has been our experience recently that insufficient promotion has led to a shipping freight service folding.

It is hoped that one of the major outcomes of the new Australia Indonesia Development Area (AIDA) proposal will be a relaxation of the regulations inhibiting new transport links between northern Australia and Eastern Indonesia. In this regard, I commend the work being done under the Contact Group on Transport Growth in Eastern Indonesia; and that both the Indonesian and Australian governments can reach a practical arrangement to stimulate transport growth, as soon as possible.

In particular, one idea which would open up competition in the air transport sector and make investment in this sector more attractive to Australian operators, would be if an 'open skies' policy were adopted in Eastern Indonesia. If foreign operators were allowed to operate on domestic routes in Eastern Indonesia the benefits to Indonesia would be increased competition in the air transport sector, and a further stimulus to investment in Eastern Indonesia as freight and passenger costs were reduced.

Another idea worth exploring is that of granting Fifth Freedom and Beyond rights to air service operators out of northern Australia into Eastern Indonesia – if air service operators were allowed to participate in providing services from northern Australia, into Eastern Indonesia and beyond into Eastern Malaysia, Brunei or the Southern Philippines, these routes would become very attractive to some of our more innovative operators and investors.

Trading these Fifth Freedom and Beyond rights would need some clever negotiation by Indonesian, Australian and other regional government air service experts; but the outcomes would help put the routes on the map, and therefore open up trade flows.
Tourism

Tourism is a very important and promising sector for regions such as the Northern Territory and Eastern Indonesia. Both regions have areas of great natural beauty, and fascinating cultures and histories. These are ideal attractions to draw in large numbers of tourists, although there is still an urgent need for the development of adequate facilities, especially in parts of Eastern Indonesia.

With increasing competition for the tourist dollar in South East Asia, both Eastern Indonesia and the Northern Territory need to work together to promote their regions. The concept of joint promotion, while not new, is gaining increased relevance.

Visitors to the Northern Territory have grown steadily over the past few years, topping 1340 000 in 1995/96. Of these, about one quarter – 345 000 people – were overseas visitors. Foreign tourist arrivals in Eastern Indonesia are far smaller, however, there is potential to increase numbers visiting Eastern Indonesia if the current low level of infrastructure is improved.

There are significant opportunities for Northern Territory business people, on their own or in partnership with southern investors, to cooperate with business people from Eastern Indonesia in upgrading the tourism infrastructure.

However, in tourism there are always unpredictable risks, as the Northern Territory found during the pilots’ strike of 1989. We have to continuously stay one step ahead of new competitors, and look for innovative ways to promote our products, and new innovative products to capture niche markets.

Bali, for example, with which an MOU was signed in June 1996, is the most popular tourist destination in Indonesia where tourism is the mainstay of the provincial economy. While foreign tourist arrivals in Bali grew steadily in the early 1990s topping the one million mark in 1994, foreign tourist arrivals in Bali actually fell by a small percentage in 1995. This has caused the industry there some concern, and led to talk of establishing a Bali Tourism Promotion Program overseas, separate from the national effort.

In the Northern Territory we have long been aware of the need to conduct our own promotion program separate from the national effort. Under the MOU we signed with Bali, we are now looking at ways to cooperate in developing joint products, and
joint promotion of our two regions. Combined Darwin-Bali or Bali-Darwin holiday packages would have considerable attraction to certain segments of the mass markets of Europe, North America and Japan. Later this year, a group of Bali’s top travel agents and tourism industry officials will visit Darwin for talks on joint promotion, and also to establish stronger links with the local tour and travel industry.

There is a need to promote the development of joint products with other regions of Eastern Indonesia. Some Northern Territory travel agents are already active in developing tour packages which can include both the Kakadu experience, and an adventure travel experience in Eastern Indonesia. This type of package will grow in demand in the future. The Darwin travel industry, in cooperation with counterparts from Bali and other parts of Eastern Indonesia, is best placed to put them together.

It is hoped to expand efforts in joint promotion under the auspices of the MOU to eventually realise the concept of the Arafura Tourism Zone.

Trade

Excluding oil exports, the Northern Territory’s exports to Indonesia over the past five years, since the signing of an MOU, have increased dramatically from just over $6 million in 1991/92, non-oil exports have grown steadily to over $9 million in 1995/96 – an increase of just under 50 per cent in 1995/96.

The greatest area of growth has been in exports of live cattle to Indonesia, but there has also been significant growth in exports of machinery and transport equipment, primarily to service the mining industry. Imports from Indonesia have also grown slightly, although they are still relatively small, totalling just over $8 million in 1995/96. The chief import items are LPG, furniture, timber and plywood.

It is probable that with the rapid growth of the mining sector in Eastern Indonesia, there will also be continued growth in export of machinery, mining equipment and services, and food and supplies for the expatriate workforces, especially with large new gold and copper mines due to open in the next few years in Sumbawa, Halmahera and East Kalimantan. With the growth in these exports and the growth in exports of live cattle and meat,
there will be a corresponding growth in shipping and air freight capacity to Eastern Indonesia which will provide opportunities for increasing the level of imports from Indonesia.

One area which appears promising is imports of timber from Indonesia direct through Port Darwin. Currently, most timber in the Northern Territory is imported from southern Australia, but it would be more economical to import the Territory's timber requirements direct from Kalimantan and other regional sources.

Conclusion

There are major prospects for further growth in our economic links with Eastern Indonesia over the next five years. Both the MOU and AIDA are positive government-to-government links which serve to underpin and foster this growth. It is planned to stimulate that growth to ensure that the Northern Territory remains the fastest growing region of Australia, and the state with the lowest level of unemployment.

We, in the Northern Territory have the commitment and enthusiasm to take steps to ensure that hindrances to expanded trade and commercial links are removed or reduced. Our friends in Jakarta, the eastern provinces of Indonesia and Canberra also have that commitment and enthusiasm.
THE TIMOR GAP TREATY

STUART CAVE

Introduction

Indonesia and Australia agreed on the continental shelf boundary in 1972, based on the 200 metre sea depth and exploitability criteria, consistent with the 1958 Geneva Convention.

However, a 'gap' of approximately 200 kilometres remained adjacent to East Timor, then still a colony of Portugal. In 1975, the Portuguese left East Timor which subsequently became Indonesia's 27th province.

Negotiations between Indonesia and Australia for the continental shelf delimitation covered by the 'Timor Gap' commenced in 1979, when Australia recognised Indonesian sovereignty over East Timor earlier that year. Finally, negotiations resulted in the Timor Gap Treaty being signed on 11 December 1989, establishing a Zone of Cooperation to further exploration for and exploitation of petroleum resources. This Treaty provides an interim arrangement, without jeopardising the reaching of a final agreement in the future on the delimitation of the continental shelf in this area.

1 Stuart Cave is Executive Director, Timor Gap Joint Authority, Darwin.
The Timor Gap Treaty Includes Four Main Sections

1 The Scope

This establishes joint arrangements for equal sharing of benefits and thereby allowing exploration for and exploitation of petroleum resources whilst continuing the efforts to reach agreement on a permanent continental shelf delimitation between the two countries.

2 The Zonal Designation

This is divided into three AREAS:

Area A of about 30,000 km² (the Joint Development Area), is subject to joint control of the exploration/exploitation of the petroleum resources. Petroleum operations in Area A are carried out through Production Sharing Contracts (PSC).

Area B under Australian control and sharing with Indonesia 10% of the gross Resource Rent Tax collected.

Area C under Indonesian control and sharing with Australia 10% of income taxes collected from producers.

3 The Arrangements for Joint Regime in Area A

(a) The management infrastructure:

Comprises a Ministerial Council having overall responsibility, on behalf of the two Contracting States on all matters relating to petroleum operations in Area A.

A Joint Authority (JA), responsible to the Ministerial Council for the management of petroleum operations in Area A. The JA has juridical personality and such legal capacities under the law of both Contracting States as are necessary for the exercise of its powers and the performance of its functions and can be party to legal proceedings.

(b) Administration of the petroleum operations:

A Petroleum Mining Code, which prescribes the regime to administer petroleum operations in Area A, such as,

- rights conferred by the PSC and provision for PSC termination.

The system adopted for carrying out petroleum operations in Area A, is the PSC between the JA and limited liability corporations specifically established for that purpose.
The commercial regime is set out in a model PSC, which is Annex C of the Treaty. This sets out the commercial terms and respective rights and obligations of the JA and the Contractors, including work commitments, acreage relinquishments, recovery of the investments, arrangement for sharing and handling of production, contract term, valuation of petroleum, title to the equipment, dispute settlement, termination, etc.

This PSC regime is not just a replica of the system existing in one Contracting State or the other, but it represents a product of combination of features from both systems.

The JA, responsible for the management, has an exclusive authority to contract for petroleum operations throughout the contract area. The Contractor (that is the Oil Company), has the exclusive right and the responsibility to undertake petroleum operations in the contract area.

(c) The sharing of production:

Ownership of petroleum in Area A is held by the JA on behalf of the Contracting States and the contractor's share passes to the contractor at the point of tanker loading. The JA receives revenue from the sale of its share of production on behalf of the Contracting States, for equal distribution between them.

The sharing of petroleum production is achieved sequentially, as follows:

- the 'first tranche petroleum', which is 10% of production in the first five production years and 20% thereafter;
- recovery by the Contract Operator of 'investment credits' being an amount of petroleum equal in value to 127% of exploration and capital costs incurred;
- a quantity of petroleum equal in value to current operating costs, which includes exploration costs, non-capital costs, depreciation of capital costs (calculated at 20 per cent per annum straight line), and prior years unrecovered Operating Costs;
• the balance of production is split between the Joint Authority and the Contractor as follows:

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<td>50 : 50</td>
</tr>
<tr>
<td>50,001 – 150,000</td>
<td>60 : 40</td>
</tr>
<tr>
<td>more than – 150,000</td>
<td>70 : 30</td>
</tr>
</tbody>
</table>

Natural Gas – = 50 : 50

The taxation of profits derived from Area A are set out in the Taxation Code which is Annex D to the Timor Gap Treaty and the basic intent of this code is the avoidance of double taxation, which is achieved by requiring companies and individuals to file tax returns in both countries with a 50% deduction allowable in each country.

The above reference to individuals only applies to those who are not nationals or permanent residents of either of the Contracting States.

4 Cooperation of the two regimes in Area A

Although the Timor Gap Treaty is all about oil exploration it also includes arrangements for cooperation on certain other matters and the application of certain laws of each of the Contracting States.

(i) Cooperation in carrying out responsibilities in their respective region, transgressing into or out of Area A, such as:

• coordination in surveillance activities, security measures for responding to incidents, and search and rescue;
• facilitation of services such as air traffic services, protection of the marine environment, unitisation of petroleum accumulations that extend across any boundary of Area A of the Zone of Cooperation, and the construction and operation of facilities necessary to take place in either Contracting State; and
• conduct of regional surveys such as hydrographic and seismic surveys, and marine scientific research.
(ii) Application of certain laws of the Contracting States to persons active in Area A have been provided, as follows:

- a PSC shall specify the law applicable to it – it is interesting to note that no PSC is subject to the law of Australia or Indonesia;

- for customs, migration and quarantine laws: persons, equipment and goods must first enter Australia or Indonesia where their respective laws will apply upon entry or on departure from Area A. Goods and equipment in transit to and from Area A are not subject to customs duties;

- on employment in Area A, preference will be given to Indonesian and Australian nationals and permanent residents in equivalent numbers over the term of the PSC with due regard to operational efficiency and safety;

- occupational health and safety standards and procedures for workers in Area A to be compatible with the law of either Contracting State;

- vessels engaged in petroleum operations are subject to the laws of the Contracting State whose nationality they possess; ie their flag;

- criminal jurisdiction applies on the basis of nationality or permanent residency of a person;

- civil actions as a result of activities in Area A may be brought in the Contracting State which has or whose nationals have suffered the damage;

- with respect to the taxation law, Area A is treated by each Contracting State as part of that state, and each shall grant a person relief from double taxation by reducing annually the business profits or loss derived from or occurred in Area A, by 50%;

- settlement of disputes between the Contracting State shall be resolved by consultation or negotiation, whilst PSCs prescribe that unresolved disputes be submitted to a specified form of binding commercial arbitration, and any award will be enforceable in the courts of the Contracting States.
Implementation

Area A was initially divided into 14 Areas and after relinquishment of 25% of all blocks in 1994 and the termination of three PSCs in 1995, six additional areas were established for the 1995 bid round.

The first PSCs were awarded in December 1991 and exploration commenced in early 1992. Additional PSCs were issued in 1995 and 1996 and three PSCs were surrendered in 1995. At the end of 1996 there were 15 active PSCs, however two of these will be terminated this year, one at the request of the Contractor and the other by the Joint Authority due to default of the Contractor. To date 136,000 line kilometres of seismic, incorporating both 2D and 3D imaging, have been acquired and 30 wells have been drilled.

A total of $A450 million has been expended on exploration activities since 1992 and at least the same amount, if not more, will be expended over the next few years. A $A100 million oil development has recently been approved by the Joint Authority and many millions of dollars have been spent on preliminary engineering of a world scale gas/condensate discovery, the development cost of which may well exceed $A2 billion.

Sharing of Work

The Treaty defines very clearly how the petroleum discovered in Area A will be shared by Australia and Indonesia. What is not yet clearly defined is how the work involved in exploring for and exploiting these petroleum resources will be shared.

The Treaty does define how preference should be given to Australian and Indonesian personnel and companies but with the overriding requirement that all contracts awarded and employment of personnel must be in accordance with good oilfield practice and safe and efficient operations. Preference shall also be given to goods and services which are produced in Australia or Indonesia, provided they are offered on competitive terms and conditions compared with those available from other countries. It further states that the preference given in employment of Australians and Indonesians in Area A shall be in equivalent numbers over the life of the PSC.
A further provision of the Treaty, to eliminate a preference by companies, of utilising low cost Indonesian labour, is the requirement for employment conditions of all personnel working in Area A to be under terms and conditions no less favourable than those which apply from time to time to comparable categories of employment in both Australia and Indonesia.

All of the above provisions could give rise to an expectation that the two contracting states would equally share the provision of labour and contracts for activities in Area A. However, this has not been the case and work activities have been shared as follows:

<table>
<thead>
<tr>
<th></th>
<th>Contracts</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>93.1%</td>
<td>53%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.8%</td>
<td>29%</td>
</tr>
<tr>
<td>Other Countries</td>
<td>0.1%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Many factors affect how the work is shared and the following represents some facts relating to the facilities offered by Australia and Indonesia.

1. The cities of Darwin in Australia and Kupang in Indonesia are both in close proximity and located about the same distance from Area A.
2. Darwin, has a population of 80 000. Kupang has a population of 350 000.
3. Darwin has a much more developed infrastructure than Kupang.
4. Darwin has state of the art electronic communications facilities.
5. Darwin airport has the longest runway in the southern hemisphere with direct connections to many Australian and international locations. Kupang airport can handle up to Boeing 737 aircraft and direct connections are only available to Darwin and various Indonesian locations.
6. Both are port cities. Darwin has one of the largest natural harbours in the world and has served as a supply base for the Australian offshore oil industry for over 25 years. Some very large ships have entered Darwin Harbour including the QE2 and the nuclear aircraft carrier USS Enterprise. State of the art container handling facilities are available and Darwin
The Timor Gap Treaty

currently has under construction a new commercial port incorporating modern oil supply storage and handling facilities. Kupang port facilities are limited and restricted to relatively shallow draft vessels.

7. Darwin has had two offshore supply and storage bases for over 10 years and a number of major oil industry service companies have warehouse facilities and servicemen based in Darwin.

Darwin has been the chosen supply base for all operators in Area A with only nominal use of Kupang to date.

The Joint Authority, under the Treaty, has the responsibility for controlling the entry, exit and passage through Area A of all vessels, aircraft and personnel engaged in petroleum operations. Individual approvals are given which enables the Joint Authority to monitor obligations relative to employment of Australian and Indonesian nationals and the Joint Authority has not been backward in reminding operators of their obligations where it is evident that these are not being achieved or are being ignored.

The Joint Authority has also been able to monitor the division of work between the two states and in the case of personnel has been able to reduce the employment of nationals from countries other than Australia and Indonesia from 35% in 1992 to 18% today resulting in an increase in the employment of Australians from 48% (1992) to 53% (1996) and Indonesians from 17% (1992) to 29% (1996).

It is in the interests of both governments to ensure that the cost of exploration and development is carried out in a cost effective manner as this maximises their returns under the PSC. It is also a requirement of the PSC, that all work carried out must be competitively tendered. Consequently there is an incentive for the lowest bids to be accepted. It would not be prudent to direct that contracts be placed in a particular country to correct an imbalance as this would reduce the revenue of both governments.

Conclusion

We are optimistic that the labour utilisation figures will reach equivalence in the not too distant future helped by the fact that the production phase is about to commence.
The provision of labour for the production phase can be forecast and planned to a much greater degree than during the drilling phase. Current forecasts are that production manning levels will see up to 70% of the workforce being Indonesian until such time as the current imbalance has been brought back to the equivalence level required by the Treaty.

On the other hand however the sharing of contracts is very dependent on the capability and cost structure of industry in Australia and Indonesia and only time will tell if equivalence can be achieved in this area as well.

In conclusion I hope that I have been able to give an insight into the operation of the Timor Gap Treaty. A lot has been achieved and there is no doubt in my mind that these achievements would not have been possible without the spirit of cooperation which is taking place on a daily basis within the Joint Authority which enables the oil companies to get on with the thing they do best – finding oil.

The Timor Gap Treaty must be a prime example of what can be achieved by two countries to resolve a potential conflict to the benefit of both of those countries. Even in spite of diverse cultural differences in the people charged with the responsibility to administer the Treaty, the administration of this Treaty is the most successful of its type at this time.
AGREEMENTS AND SECTORS

*Just Over the Horizon and a World Away*

**Chris Bigg**

This paper is about the transport sector – the intergovernment sector, transport services and the trade sector itself – in relation to the Australian-Indonesian Development Area (AIDA) covering the eastern provinces of Indonesia. The title of this paper, *Agreements and Sectors: Just Over the Horizon and a World Away* describes the general interaction between Australia and Indonesia, and more particularly of the Northern Territory and Eastern Indonesia. It describes the opportunities and the challenges within government to government relations.

The Historical Aspects of the Transport Sector

The importance of the proximity of Indonesia has never been in doubt in historical terms. Macassan fishermen and traders were on the north Australian coast at least a couple of hundred years ago and are well known in relation to the Ashmore and Cartier Territories. In 1872, the sea cable from Java was landed here in the Northern Territory and today there is a monument on the Esplanade in Darwin to commemorate that. The sea cable, in combination with the overland telegraph line, connected Australia to Britain.

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1 Chris Bigg is Deputy Secretary, Northern Territory Department of Transport and Works, Darwin.
Shipping Services in 1993–1997

Development of trade routes have developed steadily over time and there are now established links from eastern Australia through Darwin into Indonesia.

Perkins Shipping

Perkins Shipping was established some thirty-five years ago and it has built up an extensive northern Australia barge network. Perkins Shipping now provides an established service including Aboriginal communities and the mining industry in northern Australia. The first direct shipping service to Singapore and other regional ports began over twenty years ago. Perkins has been very active in the region for some time.

With regard to shipping links in particular, trade in a developing region such as in Northern Australia and Eastern Indonesia requires flexibility on the part of the shipping operators. They need to know what is happening in the regions on a month-to-month basis, and to be able to respond to demands as they arise. There is a need also for three distinct and yet overlapping types of shipping: first, the tramp services, as they are known in the industry otherwise simply the ad hoc shipping or the charter shipping which responds to single lifts or multiple lifts anywhere; second, the regular liner or scheduled shipping services; and third, specialised operations such as for cattle or single heavy lifts for the mining industry. In a developing region, all three types of shipping services are required. Perkins Shipping, in particular, has been able to meet all of these demands.

Perkins tend to be more flexible than the larger international operators who have a fairly rigid network and a schedule to keep. Obviously there is a need also for a fair degree of flexibility in local shipping operations. Other local operators, notably Mooley Shipping and Trading, also operate fairly typical routes and in areas other than those operated by Perkins. Mooley operates cattle vessels also which are equipped to carry containers and general cargo. Between ten and forty containers on vessels and carrying commodities such as frozen meat, explosives and others.
Map 2: Shipping Services 1997
Air Schedules
There are twenty-three in-bound international flights a week to Darwin, and twenty-two out-bound international flights during the same period. Interstate flights over the borders of the Northern Territory cover 372 flights a week at the current time. Direct interstate flights per week cover flights into Gove, Alice Springs and Darwin. A major growth in international flights has been the Bali flights which have increased from three to nine per week and the Singapore flights from five to seven. We anticipate eight Qantas flights per week to Singapore in the near future.

<table>
<thead>
<tr>
<th>DWN TO:</th>
<th>DOMESTIC</th>
<th>INTERNATIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Weekly Services</td>
<td>Flight time</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cairns</td>
<td>More than daily</td>
<td>3 hr 5 min</td>
</tr>
<tr>
<td>Brisbane</td>
<td>More than daily</td>
<td>3 hr 45 min</td>
</tr>
<tr>
<td>Sydney</td>
<td>More than daily</td>
<td>4 hr 10 min</td>
</tr>
<tr>
<td>Adelaide</td>
<td>More than daily</td>
<td>3 hrs 30 min</td>
</tr>
<tr>
<td>Perth</td>
<td>More than daily</td>
<td>3 hr 15 min</td>
</tr>
<tr>
<td>Comparison Increase</td>
<td>1993</td>
<td>1997</td>
</tr>
<tr>
<td>No. Flights</td>
<td>250</td>
<td>770</td>
</tr>
<tr>
<td>No. Seats</td>
<td>25000</td>
<td>37000</td>
</tr>
</tbody>
</table>

Growth in scheduled air services through Darwin

Intergovernmental Transport Relationships
There is a very active Australia-Indonesia bilateral transport relationship led by the Commonwealth Department of Transport and Regional Development. That Department has been putting considerable effort into developing a trade coordination area. We have only recently become part of the relationship in the transport portfolio so I refer only to the transport portfolio. Obviously, the Department of Asian Relations, Trade and
Industry (DARTI) has been very active in this sector for very many years and it is recognised that the Northern Territory has a specific role within the relationship with respect to Eastern Indonesia issues.

The communications portfolio in Indonesia is their version of the transport portfolio and there is particular emphasis on the development of Eastern Indonesian provinces that reflects the goals in Repelita VI (The Sixth Five-Year Economic Development Plan for Indonesia). The Northern Territory is expected to have a part in this development.

Recent Activity

The Commonwealth involved the Northern Territory, Western Australia and Queensland in the meeting at Ambon in September 1996. There was particular emphasis on the Northern Territory by the Indonesians. In November 1996 there was a large meeting of officials from industry and government of Indonesia and Australia in Darwin which focused on the development of transport services in Eastern Indonesia and later that year the Communications Minister, Harry Ento visited Darwin as a result. Both Indonesia and Australia recognised that the development of the transport services and infrastructure sector in Eastern Indonesia must be led by the private sector.

Early in 1997, the management board of the Northern Territory Department of Transport and Works (T&W) discussed the legitimate reasons for them to be involved in overseas activity in general and with Indonesia in particular. First, was the development of air and sea links which is part of our transport portfolio. Trade development via transport solutions, and I will speak to you a little more about that in a moment.

Generating Work for the Northern Territory Private Sector

Technology Transfer

One achievement of the T&W in Asia has been the transfer of the chip seal method of road surfacing to the Malaysian Department of Public Works. In Malaysia only asphalting had been mastered so T&W has been instrumental in trialing the transfer of the
technology for the construction of bitumen roads. Malaysia is particularly interested in this technology because the material is between a third and a half of the cost of asphaltaling.

Intergovernmental relations between that region and Australia will continue to develop.

**Specific measurable outcomes**

When we refer to performance indicators there is not one particular performance indicator that we want to subscribe to in this area at the moment. However, it is worth noting that the Darwin Hub Report, launched in November 1996, sets out strategies on how to develop the hub potential of Darwin. Eastern Indonesia is considered to be significant in that regard.

**Key Challenges in the Strategy of Darwin as a Hub**

Marketing the hub concept, the research effort that underpins capturing the potential trade, plus identification of opportunities and then packaging transport and logistics, will strengthen the desire to trade through Darwin.

*Darwin 2010: the Multi-modal Transport and Logistics Hub* report was launched to industry and tabled in the Northern Territory parliament on 26 November 1996. The document sets out strategies to be pursued to fully develop Darwin’s potential as a significant regional transport and logistics hub. The 21st century will see the city of Darwin playing a pivotal role in the future of Australia. Within 15 years our northern capital will be a linchpin in trade communications and transport, linking Australia and the dynamic markets of Asia. Key challenges are:

- marketing the hub concept to raise awareness and gain acceptance among key participants in the transport and logistics chain;
- researching, identifying and capturing potential trade by offering viable trans-shipment and landbridging solutions attractive to industry players;
- completion of the Adelaide-Darwin railway to enable development of significant landbridge trade;
- timely investment in port infrastructure and facilities, including commissioning of Stage 1 by early 1988 and
completion of a container terminal and rail–sea intermodal facility by the time the rail is completed;

- Darwin port to be recognised as an efficient and cost-effective shipping and cargo handling port operation with capacity to service railway and landbridge needs;
- establishment of Darwin a physical distribution centre;
- establishment of Darwin as a supply base for mining, oil and gas industries in the region;
- development of Darwin as a 'terminal' or 'home' port of call for cruise ships as the potential of the Arafura Tourism Zone is realised.

The completion of the Adelaide-Darwin railway is crucial. Without that railway trade will suffer.

The Darwin port includes the Port Authority, the stevedores, the line boat operators, the tug operators, customs agents, customs service and quarantine service. An exporter will want to see all of this operating efficiently, both in terms of time and also cost. The Darwin Development Hub, will also be very important as a supply base for the mining and petroleum industry and there are a number of significant projects currently underway including a terminal berth or home port status to attract cruise ships to Darwin. That refers to both the facilities and the status that Darwin has in tour and cruising programs.

Conclusion

In terms of implementing the Darwin Hub Report (which set the broad overview of future directions) action plans are being developed. Those plans will go to industry and other government sectors. Those action plans will really only have a time horizon of between one to two years depending on which particular sector is involved.

Up till the 1990s there was little government focus on Eastern Indonesia and no real consciousness of it on the part of the wider transport sector, companies, with the exception of Perkins and Mooley. Considerable government-to-government activity between the Northern Territory and Eastern Indonesia in 1996, plus the growing interest by the wider transport industry is positively improving.
In terms of the intergovernment relationship, we are not really sure exactly where that is heading in terms of deliverable outcomes. A very cordial relationship and the building of a network is all that we have at the moment, but the future for the Northern Territory looks positive and there are considerable expectations for the further development of transport and trade links.
THE INDONESIAN MINING SECTOR

An Opportunity and Challenge

ROSS TREVENA

Introduction

Mining and exploration activity in the South East Asian region has expanded significantly in recent years, particularly in Indonesia. This is due to a relatively attractive investment regime coupled with the country's strong geological prospectivity.

The regional mining and petroleum industries represent a major target market for the Northern Territory. This market also has potential to generate new transport links through and from Darwin and to attract new industry. However, significant challenges need to be overcome for the Territory to win a significant share of this market.

The Northern Territory Department of Asian Relations, Trade and Industry (DARTI) has a long term strategy in place to establish Darwin as a major regional supply and service centre for the mining and petroleum industries. Eastern Indonesia, in particular, is the prime focus of this strategy because of the number of mines and planned mines in the eastern provinces, and the high levels of mineral and petroleum exploration activity.

1 Ross Trevena is Director, Mining Support, Northern Territory Department of Asian Relations, Trade and Industry, Darwin.
The objectives of this paper are first, to provide an overview of the Indonesian mining industry, and the potential business opportunities available; second, to outline the Northern Territory’s competitive position currently – our strengths and weaknesses; and third, to set out some strategies for improving our competitive position.

Overview of the Indonesian Mining and Petroleum Industry

Indonesia is already among the world’s biggest producers of gold, copper, tin, nickel, coal and natural gas. Much of this production comes from Eastern Indonesia which is one of the most prospective regions on earth for gold and base metals as evidenced by:

- existing mines such as Freeport’s huge operation in Irian Jaya which is one of the world's biggest copper mines and produces 25 TPA gold as by product;
- CRA/RTZ’s Kelian gold mine in East Kalimantan;
- Pt Incos Nickel Mine in South Sulawesi; and
- new mines such as Newmont’s Minahasa project in North Sulawesi.

Relatively recent discoveries such as Newmont’s Batu Hijau, a major copper/gold deposit on Sumbawa, and Newcrest’s gold prospect at Gosowong on Halmahera, and most notably of all, the recent Busang discovery by the Canadian company BRE-X in East Kalimantan, reputedly the biggest gold strike ever. The estimated resource is 70 million ounces plus, which, even at current depressed gold prices, has an in ground value of about $US25 billion.

Coal and Petroleum

East and South Kalimantan are major producers of high quality, low cost coal. Broken Hill Proprietary (BHP) Ltd’s Arutmin and the Consolidated Rutile of Australia-Rio Tinto Zinc (CRA-RTZ) operated Kaltim Prima Coal are two of the most significant operations. Expansions are underway in the coal industry to double current production levels to 70 mega tonnes per annum.
by the year 2000. Development of the coal industry is a cornerstone of government policy to lessen demand for fuel oil.

There are large gas fields and associated Liquified Natural Gas (LNG) and petrochemical plants at Bontang in East Kalimantan, plus some oil production, and active petroleum exploration programs in several provinces. LNG expansion projects are planned and Pertamina has implemented incentives to stimulate exploration in frontier acreage, particularly Eastern Indonesia. Arco has confirmed a major gas field in Irian Jaya and Conoco has been exploring onshore near the Papua New Guinea border for some years. The Australian company Energy Equity Corp, which operates a mini LNG project in central Australia, is developing a gas field and power station in South Sulawesi.

Australian, United States and Canadian companies are the major foreign operators in gold, base metals and coal; United States, French and Japanese companies dominate the petroleum industry. There are two major state owned mining companies, Pt Aneka Tambang, which has assorted joint ventures with foreign companies, and Pt Tambang Timah which is partially privatised.

Foreign mining companies or foreign/Indonesian joint ventures operate in Indonesia under government contracts of work (COWs) or in the case of coal, cooperation contracts. The COW system provides a workable framework with a predictable set of conditions and security of tenure which has been attractive to foreign investors. Petroleum exploration and production is controlled via production sharing contracts with Pertamina.

The COW regime plus the general process of investment deregulation has led to increased interest from international mining and exploration companies over the last two to three years, and a marked increase in the number of foreign service and contracting companies based in Indonesia.

There have been setbacks in recent months, namely the scattered but significant social unrest and the uncertainty that ensued following the Busang fraud, where a number of companies and well connected individuals scrambled to get a share of the action, impacting on the broader mining industry in the process through delays in COW Approvals.
Also of concern to some in the industry is the government plan to terminate the system of import pre-shipment inspections currently carried out at point of loading by Pt Surveyor Indonesia. It is to be replaced from April 1997 by on-arrival customs inspections, though there is some confusion as to the details of implementation.

Australia is one of the world's leading mining nations — a major producer and trader of most minerals, and a major foreign investor and supplier. In 1995/6 the Australian minerals and energy sector, including exploration and service industries, had total sales of $A35 billion.

And Australian companies and their Asian partners are increasingly exploring and developing mines in South East Asia. Australian companies operating in Indonesia include CRA-RTZ, BHP, Newcrest, Aurora Gold, Normandy Poseidon, Aberfoyle and Renison goldfields. Australia is the largest foreign investor in the Indonesian mining industry.

Opportunities

Several billion dollars is spent annually on supplies and services to Eastern Indonesian mining operations. Freeport alone spends up to $500 million and sources about 30% of its requirements through a Cairns buying office. In terms of capital expenditure, development cost of Batu Hijau alone will be $US1.3 billion. Australia as a whole is a major supplier of products and services (from the east coast and Perth), up to 80% of supply requirements for the smaller mines, less for bigger operations.

In other words, a large defined market already exists, and will grow as new mines and mine expansions come onstream. However, getting a bigger share for the Northern Territory is not an easy task, even in areas where we have clear capabilities, and the opportunities must be put in perspective. It's a very competitive business with big buyers and established supply lines. Nevertheless, even a small share can be significant to the Territory against our existing exports to Indonesia, which totalled $115 million in 1995/6, including live cattle and petroleum products. This figure excludes service industries and the value of work done in country by, for example, the Henry Walker Group.
Generic areas of opportunity in the mining sector are:

**Construction and fabrication**
Design and engineering consultancy; overburden removal; infrastructure development such as roads, port, utilities, pioneer camp and townsite; process plant construction.

**Procurement**
Construction phase: structural steel, pipework, tanks and valves, plant and equipment, machinery, pre fabricated housing, some consumables.
Operational phase: depending on type of mine – heavy mine vehicles, excavators, four wheel drive vehicles, pumps, conveyors, control systems, mine planning software, full range of consumables – primarily explosives, lime, processing chemicals, fuel & lubricants, grinding balls, mill liners, tyres; plus electrical, hydraulic hoses, tools & general hardware, food, safety gear, spares, exploration supplies.

**Staff support services**
Language and culture induction programs, international schooling, rest and recreation (R&R) programs and fly in/fly out, health and medivac support and recruitment.

**Workforce training**
Course development and provision of trainers and facilities for basic training of the local workforce in trades, plant operation and maintenance. Batu Hijau for example will have 40 trainers on site.

**Site services**
Such as catering, maintenance and repair workshops, utilities management, laboratories. These non-core activities are often contracted out.

**Contract mining**
Prestripping and the actual digging and carting of the ore is often contracted out. Henry Walker is in this business.

**Community development**
Indigenous rights issues are of growing concern worldwide and have to be dealt with perhaps more comprehensively than in the past. Involvement of the local community is essential.
Environmental management
An area of growing profile in the regional mining industry, which means consulting opportunities.

Assay
At both onsite and offsite laboratories.

The Competitive Position of the Northern Territory

Strengths
The Northern Territory and Eastern Indonesia have a logical geographic connection. Darwin is strategically located to service the resource rich region of Eastern Indonesia. Further, the Territory also has substantial mining and petroleum sectors, with total production valued at $1.2 billion and accounting for 20% of the Gross State Product (GSP). We therefore have established service and supply companies, the capabilities of which will expand with further resource developments.

The Territory is in the midst of a development upswing in the mining and petroleum sectors, with several new mines and mine expansions operational or proposed, such as McArthur River, Mount Todd Stage 2, Ranger, Diamond Production, as well as an imminent oil and gas boom.

The Darwin-based offshore oil and gas industry is in the build up stage of a major wave of exploration and development activity. High drilling success rates are continuing, up to 100 exploration and development wells are planned for the next five years, and an LNG plant is under detailed study by Phillips and BHP. The Timor Sea is BHP and Shell's most active exploration area in the world.

These developments should trigger substantial opportunities for local industry and add further weight to our industry capability. Darwin already has relatively good infrastructure and services, especially compared to locations in Eastern Indonesia, with major developments underway or under consideration, notably the East Arm port development and an offshore supply base. We also have the Trade Development Zone (TDZ) adjacent to East Arm.
Government - Business Relations Between Eastern Indonesia and the Northern Territory

Perspective is required though. Western Australia and Queensland have bigger resource sectors and much bigger industrial bases servicing those sectors.

We have the government-to-government framework through the Memorandum of Understanding (MOU), good central and provincial government relationships, plus good local knowledge of Indonesia by industry and the community at large. The Northern Territory is committed to active engagement in the region, with a special focus on the eastern provinces of Indonesia. Both government and industry are selling the Northern Territory vigorously. No other state is as committed.

Darwin also has the advantages of similar climate, a multicultural environment, experience in servicing tropical, remote area locations and skills in indigenous training. The Territory stands an excellent chance of winning local workforce training business to a value of several million dollars with two mining companies in Indonesia.

We are well equipped to provide staff support services such as health and Medivac, Indonesian induction programs for new expatriate staff, and the establishment of on-site international schools. Proposals have already been submitted, are under development, or under discussion in all these areas. Newmont has costed its R&R leave packages for Batu Hijau on the basis of flying to/from Darwin.

Community development projects also offer opportunities. A significant achievement with respect to Freeport was our success in bringing together Freeport and Northern Territory cattle industry expertise to develop an integrated cattle supply, feedlot, livestock husbandry and abattoir project at the mine support town of Timika. The project supplies meat to the mine and local community and has led to the establishment of a new shipping link between Darwin and Irian Jaya with monthly cattle shipments taking place.

The Northern Territory Government and industry have been successful in raising the profile of Darwin and in promoting the capability of Territory firms to key mining and contractor companies operating in the region, in particular Newmont, Newcrest, Freeport, Pt Alatief, Petrosea, Conoco, BHP minerals,
CRA-RTZ and Pt United Tractors. A number of local companies have penetrated this market in the last one or two years.

However, there are challenges in achieving a greater market share in the non services area.

**Challenges**

Mining service and supply companies in the Territory are generally small or medium size operations, or branches of national companies. Their ability to win contracts in the mining industry offshore may be limited by size, a lack of resources to maintain a presence in country or to undertake regular market development visits, or the fact that interstate branches have export responsibility.

There are products and services not available in the Territory, or not yet available in sufficient economies of scale. And there is strong well established competition from other parts of Australia, especially Perth, Sydney, Brisbane, Townsville and Cairns. For example, the high volume resupply requirements of gold and base metal mines are steel grinding balls used in the milling of ore, chemical reagents used in ore processing, and explosives. These items form the freight baseload. Other consumables make up a relatively small volume of supply requirements.

These baseload items are generally sourced from east coast Australia, along with other supplies, and transhipped to minesite via Singapore or Jakarta, which are established supply bases for the regional mining industry.

We are limited by insufficient and relatively expensive general shipping links, both between Darwin and the region, and between Darwin and the southern states. Freight rates from the east coast or Fremantle, to Singapore and Jakarta, are significantly less than rates to Darwin. And significantly less than rates from Darwin to Singapore or Jakarta. Currently there are only two scheduled services into Darwin from southern ports – one from the east coast and one from Fremantle. A rail link would help.

I should add that a number of cattle ships pass through Eastern Indonesia. These vessels provide opportunities for supplementary cargoes to provincial ports and minesites.
Strategies
Strategies in place to improve the Territory's competitive position come under four headings:
• transport and logistics;
• infrastructure development;
• marketing;
• administrative procedures.

Transport and logistics
The Department of Asian Relations, Trade and Industry (DARTI), in conjunction with industry and other agencies, is encouraging mining and contracting companies to consolidate in Darwin instead of Singapore or Jakarta. This will:
• generate the economies of scale for scheduled shipping services ex Darwin direct to key mining centres in the eastern provinces;
• provide a competitive supply line for local companies;
• provide an opportunity for incremental local Northern Territory content.

The combination of consolidation in Darwin and transhipment direct to provincial port or minesite should be competitive with transshipping via Singapore or Jakarta. And apart from unit freight rates, shorter delivery and turnaround times would generate further cost savings to the mining company by allowing reduced stock cover.

A related issue is the increasing cost to companies of basing in Singapore. Servicing requirements for oil and gas developments offshore of the Northern Territory, plus Darwin's broader potential as a regional supply base, offer scope to attract Singapore-based industry to Darwin. Territory mines also obtain a significant percentage of their supplies interstate which provides scope for combined consolidation and logistic arrangements.

The people and freight movements which will drive new airlinks also depend largely on mining and exploration - fly in/fly out, Medivac, some general cargo such as assay samples, emergency airfreight - together with tourism.
Infrastructure
Apart from the new East Arm port *per se*, the Territory government is in discussion with several major companies regarding the establishment and operation, by the private sector, of a multi user supply base at East Arm to service the offshore Northern Territory oil and gas industry, and potentially the regional mining and petroleum industries. All the proponents have extensive mining, petroleum and/or shipping interests in the region.

A separate integrated consolidation and warehousing facility, to service both the local and regional mining industries, is an alternative possibility.

Marketing
DARTI has attempted to provide an integrated government/industry one stop approach – covering procurement and logistics, staff support, training and other areas of opportunity outlined earlier. One advantage of being small is that government and industry can work together very closely.

Some Territory companies are expanding their capabilities and product lines and forming networks in response to pressure from local mining operations. Nabalco and other major operators are entering into longer term partnership arrangements with as few as ten key suppliers. This will also assist export marketing.

In the training area, DARTI has instigated the creation of a consortium to package/market the Territory’s training capabilities to Newmont. The consortium comprises Northern Territory companies and government agencies together with the Western Australia Technical and Further Education College and puts the Northern Territory in a more competitive position against major interstate training providers.

Many companies have dated knowledge of Darwin specifically and the Northern Territory in general. Darwin’s industry capabilities, infrastructure, international air and sea links, trade, have all expanded enormously in recent years. So simply providing information is important, particularly with respect to the projected Timor Sea oil and gas developments, which will attract new infrastructure and services applicable to overseas projects.
The support of companies such as the Henry Walker Group which has projects in both the Northern Territory and Indonesia is invaluable, with interests in contract mining, construction, equipment and vehicles, it has provided piggyback assistance to smaller companies seeking to access the mining market offshore. Bulk Transfer Systems, which has well established regional markets for its side tipping trailers and a joint venture with Pt United Tractors, has also provided downstream industry spinoffs.

Administrative procedures
The Northern Territory's formal regional relationships are a key selling point in promoting Darwin as a regional supply or consolidation base. The MOU provides a formal structure for progressing initiatives of mutual economic benefit. Specific joint policy initiatives are needed under the MOU and possibly aid to give more promotional power to these relationships. For example:

- simplified import procedures for products shipped ex Darwin or northern Australia.
- appointment to the MOU Joint Policy Committee of a high profile regional mining industry representative.

Mutual Benefit to Northern Territory and Eastern Indonesia

In conclusion, there are mutual benefits to both the Northern Territory and Indonesia of using Darwin as a base to support mining activity in Eastern Indonesia.

1. Ongoing expansion of the mining and petroleum sectors is crucial to Indonesia's high economic growth targets and to the development of Eastern Indonesia. Mining operations contribute directly to regional development through the opening up of remote areas.

2. Mines require a range of technology, expertise and supplies. This generates opportunities for trade business for Indonesian companies, transport links, training and skills development for local employees, and community development projects. In addition to the direct benefits of foreign investment and tax revenues there are substantial indirect benefits. Major resource developments are usually long-term ventures and therefore these benefits can accrue for the long term.
resource developments are usually long-term ventures and therefore these benefits can accrue for the long term.

3. Darwin's location and our strong government relationships provide scope for cooperation in various facets of the mining sector.

Darwin can also contribute to Eastern Indonesia's development as a supply and consolidation base for the regional mining and petroleum industries. This will drive new shipping and air links into Eastern Indonesia and open up general trade opportunities.
INTEGRATED TECHNOLOGY SERVICES

PETER CAREW

The Northern Territory Government has been very successful in opening doors to the region but, in essence, it is up to industry to do business. As such, Northern Territory industry ultimately has a significant role to play in the development of Eastern Indonesia. Importantly, the experience and lessons learnt in the development of the Northern Territory can in some ways be seen as paralleled with the requirement for Eastern Provincial development – both regions have yet to be fully developed.

The aim of this paper is to set out the history of Integrated Technical Services (ITS) and its experiences in trading and working with people in Indonesia, especially in relation to the future development of the Eastern Provinces.

Integrated Technical Services Pty Ltd was formed as an operating company in 1974 and traded as a specialist marine electronics business servicing the north Australian fishing fleet. Circumstances in 1983 led to the company being purchased by my brother, Jim and I.

At the time, the company was overstaffed, badly managed, and supporting overheads it simply could not afford. Jim and I were experienced electronics technicians with some management

1 Peter Carew is Director, Integrated Technical Services, Darwin.
skills, but negligible expertise in rejuvenating a losing business. Yet surprisingly it took about three years to get the company back to where we could start developing it.

In 1983 ITS had a staff of six and yearly sales of $700,000. We now control a business group with 32 employees and turnover in excess of $6m.

While we still maintain our core business of radio telecommunications, which we are endeavouring to expand to the mining sector within IBT, we now control a wholesale group representing computer network products, a solar energy division supplying remote power systems to the Northern Territory, the Kimberleys, and parts of Eastern Indonesia, an Optus World franchise shop and an Optus retail phone sales booth located in K-Mart, as well as a mobile satellite communications division.

The real breakthrough for ITS came in 1987 when the then Northern Territory Electricity Commission, now Power and Water Authority, decided to connect the Katherine power station to the Channel Island power station via a 132,000 volt power transmission line. A requirement for this transmission line was a sophisticated communications microwave radio bearer system for line protection and remote control of substations.

At that time there was no Northern Territory company capable of designing and building microwave radio bearers. ITS understood the technology but had no experience or working knowledge of the system required, but were prepared to acquire the experience.

An approach was made to the Minister in charge of that sector, Hon. Barry Coulter MLA, with assurance we could bring in the expertise required to complete the job. Mr Coulter stuck by us as a Territory business and we were successful in bidding for the biggest single job we have ever undertaken. It took 18 months to complete the job, which included the design, supply, installation, commissioning, and on-going maintenance of a 10 hop (path) digital microwave bearer.

With the help and support of government, ITS was able to bring to the Territory the technology and capability that would further the interests of ITS. Government has a role in opening doors, and business must be prepared to take advantage of the openings.
In 1987, ITS worked in East Nusa Tenggara (NTT) on an Australian Aid project, installing a radio communications system for the project contractor. A market potential for solar energy systems was identified for NTT, based on the following attributes:

- Location – flying time to Kupang, the capital of NTT is just 75 minutes, making it almost as accessible as Tennant Creek.
- Market – NTT was very underdeveloped, with a population of 2.5 million people of which some 60% had no electricity.
- Access – there were two scheduled weekly flights from Darwin.
- Transport – Perkins Shipping ran a regular shipping service.

By 1990, ITS had formed a distributor association with Pt Tanoni in Kupang. Tanoni ran a general trading business that appeared to have the right contacts in the provincial government. We jointly identified water supply as a starting point for the introduction of solar energy into the province and began a marketing campaign including a demonstration installation outside of Kupang.

Negotiations with the provincial government continued for some time until a package that was found that was suitable to all parties. Importantly, this package included:

- supply of technology equipment including solar modules from Darwin;
- the supply of ancillary equipment from within Indonesia;
- supervision of installations including training of local staff; and
- involvement of the local Sekolah Teknik Menengah (Senior Technology College).

Over the next two years ITS and Tanoni installed 14 water pumping systems within the province. This attracted the Indonesians who wanted to further improve the quality of life and production capabilities for the remote village people. Subsequently, the government identified solar home systems as a priority.

One of the major problems with selling solar power, despite its friendly green image, is that those who really need it cannot afford it, while those who can afford it do not really need it. The answer was to find a subsidy suitable to provide a subsidised
solar power system that the end customer could afford. Bearing in mind that repayments could be no more than 10–15 Australian dollars per month, we eventually realised a ten-year payback period on the best loan rate we could negotiate with the Export Finance Insurance Corporation (EFIC). That fact put it well outside EFIC’s operating terms and hence the proposal failed.

However, the provincial government of NTT persisted and, since then have actually funded, through their own provincial budget, some 400 solar home systems.

The bigger picture, however, was taking place in Jakarta where Indonesia’s Agency for the Development and Application of Technology (BPP Teknologi), under the direction of Minister Habibie, were putting together a project to supply 1 000 000 solar home systems to the needy villages of Eastern Indonesia. The project was named the 50 Mega Watt Peak Photovoltaic Solar Home Systems Project for Rural Electrification in Indonesia. Pilot projects were installed at various sites by a number of international photovoltaic suppliers, all of whom were vying for a share of the action.

Solarex Australia, a leading manufacturer of photovoltaic solar modules, opened discussions with BPP Teknologi in order to supply Phase One of the project with some 36 000 systems.

To put some reality to these figures, the single phase of the main project represented the largest photovoltaic project ever considered in the world, let alone implemented. Add to this the fact that Phase One represented only around 3% of the total project and this really put the international photovoltaic industry on its ears.

The Northern Territory representative office in Jakarta, through representations from ITS and the Department of Asian Relations, Trade and Industry, aided Solarex in their negotiations with BPP Teknologi while Solarex negotiated the financing through the Development Import Finance Facility scheme (DIFF).

BPP Teknologi was convinced Solarex had the best technology and resources to implement the project and stuck behind the Australian Company. At the beginning of 1996, with a combined investment of roughly $2 million from Solarex and the Indonesian government, the new coalition government led by
Prime Minister John Howard, cancelled all DIFF funding, effectively wiping the project from their books.

While I do not want to rehash on the DIFF debacle I would like to mention the persistence and patience of the staff of BPP Teknologi in sticking with their loyalty to Australian Industry. It would have been easy for them to simply accept one of numerous offers from other countries who were biting at their heels trying to get a piece of this important, high profile project.

With strong representations from the Indonesian Government, as well as the Indonesian Ambassador in Canberra, the Northern Territory Government through Chief Minister Shane Stone and Asian Relations, Trade and Industry Minister Eric Poole, as well as industry support from the International Business Council of the Northern Territory Chamber of Commerce and Industry, common sense prevailed and the project, although reduced in size, was again funded through a concessional finance package.

ITS, representing Solarex in the Northern Territory since 1983, and having worked with Solarex products in our projects in NTT, were seen by Solarex as an ideal partner in the implementation of the systems.

ITS's seven years of experience in working and living in some very remote parts of NTT, as well as our knowledge and experience in travel around the Eastern Provinces stood us in good stead for the project.

Clinching the deal, of course, was helped by the support and resources that the Northern Territory Government provided to reinforce the project – opening doors and, this time, holding them open.

As of early April 1997, ITS has a full-time Northern Territory representative in Surabaya and, progressively, three or more Territorians based in Darwin, and working also throughout nine Eastern Provinces, where they will be involved in the following:

- implementing quality procedures for the installation crews;
- training of installation teams and end users;
- ensuring Australian Standards are maintained;
- gathering logistic information on success and longer term benefits to the communities;
- reporting on the project implementation schedule.
Over a two-year period the project will identify Australia and the Northern Territory as having the most experienced photovoltaic industry for tropical conditions in the world. With our trained and experienced staff, ITS will have a foothold on further projects whether funded through Australian concessional funding, World Bank, or any other source.

I conclude by tabling some personal experiences in working in the Eastern Provinces and perhaps, therefore, adding reality to this concept. Do not think it will be easy. KTI does not mean only Ujung Pandang, Balikpapan, Mataram, or even Kupang.

KTI also means Atambua, Larantuka and Waingapu in NTT, Lospalos in East Timor, the island of Sumbawa in NTB, Tahuna in North Sulawesi, Halmahera in Maluku and Kualakapuas in Central Kalimantan. Some of these places might invite laughter from Indonesian businesses from Jakarta if asked to go there for business. For example, one installation in NTT required a boat trip of 20 km followed by transportation on the back of a truck for 30 km and then a 12 km walk through the jungle. Life was not meant to be easy. Creature comforts simply just do not exist, even in cities like Kupang, one can not duck down to Mitre 10 or Bunnings for some cable, or even nuts and bolts. They are just not there or, if they are, the size and quality does not meet requirements.

The Central Government of the Republic of Indonesia should, however, be commended on its resolve to develop the eastern provinces and on some of the steps already taken. But, in order to develop the east a relationship with the people needs to be developed. To achieve this, some attitudes need changing. The principle of 'live for today and tomorrow we'll tackle tomorrow' will always hold sections of KTI back from becoming internationally competitive.

KTI needs to develop forward-thinking entrepreneurs and the government needs to support them and open doors for them. As with the development of ITS in the Northern Territory, KTI businesses need help to enable them to bring in the resources required for them to grow because the province will grow with them.

Territory business tends to be impatient and aggressive as marketeers, whereas we need patience, understanding, and devotion to what we are attempting to achieve.
CONCLUSION

GEOFF FORRESTER

The seminar and now this collection of essays that concentrates on the scope for commercial cooperation between the Northern Territory and Eastern Indonesia, and the challenges which confront those seeking to exploit those opportunities is very timely. The Indonesian Government is paying increasing attention to the development needs of Eastern Indonesia.

The fact that the original seminar was held in Darwin is particularly appropriate because it is the Northern Territory which pioneered Australia’s links with Eastern Indonesia. In 1992, for example, the Northern Territory signed a Memorandum of Understanding (MOU) with the Indonesian Government on Economic Development Cooperation with ten provinces in Eastern Indonesia.¹

The obvious starting point for this is the natural advantage of the proximity of the Northern Territory to Eastern Indonesia. Darwin is geographically part of Eastern Indonesia and closer to key centres in the sub-region than any other part of Australia. For example, it is 850 kilometres from Kupang, 1500 kilometres from Ujung Pandang, 1000 kilometres from Timika, 1700 kilometres from Mataram, and 2000 kilometres from Balikpapan. All of these

¹ Geoff Forrester is former Deputy Secretary, Commonwealth Department of Foreign Affairs and Trade, Canberra.
² Irian Jaya, Maluku, East Timor, East Nusa Tenggara, West Nusa Tenggara, East Kalimantan, and the provinces of North, Central, South East and South Sulawesi.
centres present worthwhile commercial opportunities in sectors as diverse as mining, technology transfer, tourism and the live cattle trade, in all of which the Northern Territory has a competitive advantage.

Both entities, however, are very small in relation to the rest of Australia and Indonesia. The population of the thirteen provinces of Eastern Indonesia\(^3\) total 35 million, compared with 165 million for the rest of Indonesia. The population of the Northern Territory is 180,000 compared with 18 million for Australia as a whole. Smallness of markets and the absence of industrial bases on both sides present obstacles to developing more intensive economic relationships between Eastern Indonesia and northern Australia.

Another aspect of both entities which may slow down the process of closer economic cooperation is the relative isolation of both regions from their respective national capitals and economic centres. While both are very rich in natural resources and have relatively small populations, Eastern Indonesia is relatively under-developed compared to the rest of Indonesia. It has some of Indonesia's poorest provinces, for example West Nusa Tenggara, but it includes relatively wealthy provinces like East Kalimantan which benefit from the exploitation of oil, gas, timber and mineral resources. Both the Northern Territory and Eastern Indonesia also still rely heavily on transfers from their respective central governments. Eastern Indonesia also depends very heavily on decision-making processes which are centralised in Jakarta.

Despite the obvious challenges, the seminar identified six sectors in which the Northern Territory has a competitive advantage and which offer scope for the further development of trade between Eastern Indonesia and the Northern Territory, to the benefit of both parties. They are:

- the live cattle trade
- mining
- the Timor Gap

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\(^3\) In addition to the ten provinces covered by the 1992 MOU, the Indonesian Government now includes the provinces of Central, South and West Kalimantan in its definition of East Indonesia (Kawasan Timur Indonesia).
The authors of the chapters on those sectors demonstrate that the opportunities for the Northern Territory in Eastern Indonesia lie in capitalising on its advantages: proximity, the complementarities which exist in the above sectors and the appropriateness to the needs of Eastern Indonesia of the Northern Territory's own experience in applying new technology to harsh, remote and highly dispersed environments.

The Live Cattle Trade

The live cattle trade between northern Australia and Asia has a long history stretching back into the colonial period, as was pointed out in an earlier paper. More recently, throughout the 1980s, small numbers of live cattle were exported via Port Darwin to South East Asia. In 1992 the number of live cattle exported via Port Darwin almost doubled from 8600 head to 16 000 and the numbers exported via Port Darwin have almost doubled every year since. In 1996 the number had grown to over 232 000 head of live cattle exported to Indonesia via Port Darwin, worth $108 million. Northern Australia is overwhelmingly the major supplier of cattle for this trade – at present 99.4% – and of these 51% are from the Northern Territory. This export trade has created a booming cattle fattening industry in Indonesia and also contributed to increased availability of high quality beef for Indonesian consumers.

So far, however, most of the cattle have gone to feedlots in Western Indonesia and there has been limited impact in Eastern Indonesia, partly because low incomes in the poorer provinces have not encouraged the development of the industry. There are indications that this may change. A substantial growth is predicted in the export of live cattle into Indonesia over the next fifteen years. On conservative estimates of trends in Indonesian incomes and changes in relative prices of meat products in Indonesia, by 2010 export numbers could be about 400 000\textsuperscript{4} a year – almost double the present number.

\textsuperscript{4} Evidence now suggests that this number will be reached by late 1997.
Conclusion

Demand from traditional markets in Western Indonesia will continue to grow but another source of increasing demand will be mining, forestry and other growth centres in Eastern Indonesia as mines open up, investment increases and the area's growth generally accelerates and incomes rise. For example, there are plans already to develop the cattle industry in transmigration settlements in Eastern Indonesia. The cattle for this growth in Eastern as well as Western Indonesia will continue to come from the Northern Territory and elsewhere in northern Australia. They will be shipped from Darwin. The Northern Territory can also supply services and technology for Indonesian buyers establishing modern facilities for fattening, breeding and slaughter.

The live cattle trade is the jewel in the crown of the Northern Territory's commercial relationship with Indonesia at present and, with appropriate nurturing, has a very bright future. One issue, however, requires careful management by governments - the problem of protectionism. The rapid growth in the live cattle trade from the Northern Territory is creating sensitivity amongst local farmers who regard the live cattle trade as direct competition with them in supplying the wealthy urban markets of Java. Elections are to be held in 1997 and 1998 in Indonesia and the government is inevitably sensitive to public concern about the economic prospects of farmers and calls from them to limit the trade.

There is a role for the Northern Territory Government to play in making sure that both it and the Indonesian Government can manage an inclination to over-regulate and unduly restrict the live cattle trade, to the detriment of both sides. As the Northern Territory's representative in Indonesia, Dr Frans Seda, commented on the first day of the seminar, the Northern Territory should see itself as engaged not in a short-term venture but in the long-term, mutually advantageous task of building up the national herd of Indonesia and selling the cattle and services which make that possible.

Mining

The mining sector has enormous potential to expand the commercial relationship between the Northern Territory and
Eastern Indonesia. The opportunities have been discussed in earlier papers, particularly the paper of Mr Ross Trevena of the Northern Territory's Department of Asian Relations and Trade.

The encouragement by the Indonesian Government of foreign investment in the mining and oil and gas sectors has led to an explosion of exploration at new sites in Eastern Indonesia, where the best prospects lie. Exploration is expanding for gas, copper, gold and diamonds in East, South and Central Kalimantan, in Irian Jaya, Maluku, North Sulawesi and in East and West Nusa Tenggara. The Batu Hijau copper/gold mining project in Sumbawa is the next major development to get off the ground and the Northern Territory has been actively exploring commercial opportunities at Batu Hijau for Northern Territory business. Many of the existing and prospective mines in Eastern Indonesia are closer to Darwin than to Singapore, which has traditionally been the major supplier of goods and services. Darwin is already well equipped to service many of the needs of this sector because of the size and strength of the mining sector in the Northern Territory and could do more in Eastern Indonesia. There are therefore opportunities to keep business within the sub-region.

In early 1997, however, the bullish outlook for mining investment in Eastern Indonesia retreated temporarily. There was a noticeable rise in nationalist sentiment in the lead up to the 1997 Parliamentary Elections. In addition, the efforts from late 1996 of the children of the President to gain a carried share of the Busang project in East Kalimantan (before Busang was revealed to be a massive fraud) and the fraud itself further unsettled the foreign mining community in Indonesia. Matters came to a head in early May 1997 when the Minister for Mines tried to bring pressure to bear on Newmont Mining to give a larger, carried share in the Batu Hijau project to Indonesian interests, including the President’s eldest daughter. Top level intervention stopped this approach within 48 hours and Newmont’s Batu Hijau project is to proceed unimpeded to construction, an outcome of particular importance to Darwin and its expectations of being able to supply goods and services to the project. The approval for the Batu Hijau project has also gone some way to restoring foreign investor confidence in the mining sector.
Conclusion

The Timor Gap

Darwin’s existing capacity to serve the broad needs of the mining and oil and gas sectors in Eastern Indonesia will be further enhanced by the development in the Northern Territory of a strong support and supply capacity to service the Timor Gap oil and gas development in the Timor Sea. The paper presented by the head of the Timor Gap Joint Development Authority, Mr Stuart Cave, underlines the richness of the oil and gas resources of the Timor Sea and the likely enormous investment in coming years to exploit these resources, which lie just off Darwin between Darwin and Timor. Their development will provide direct benefit to Darwin and Eastern Indonesia. Already Darwin provides significant support services to the exploration effort.

The Timor Gap development promises other longer term, indirect benefits. On the basis of the facilities developed in Darwin to service this development, the Northern Territory can further enhance its capacity to service oil, gas and minerals exploration and exploitation domestically and in Eastern Indonesia.

Technology Transfer

Its physical circumstances have compelled the Northern Territory to develop creative solutions to the application of new technology to small and isolated communities which are in many cases also appropriate to the needs of the small communities of Eastern Indonesia. A good example is in the area of solar technology.

As explained in the paper presented by Mr Peter Carew, the Northern Territory company, Integrated Technology Solutions (ITS) developed innovative uses for new technology which were suited to the harsh and demanding conditions of the Northern Territory. They brought this experience to the challenge of introducing solar-powered water pumping systems to the province of East Nusa Tenggara. From these beginnings ITS moved on to experiment with solar home systems in the province and the provincial Government funded four hundred systems from their own budget.

At the same time Indonesia’s Minister for Research and Technology, Habibie, was developing an ambitious plan to
supply one million solar home systems to villages in Eastern Indonesia. ITS joined with the major Australian company, Solarex, in a bid to install 36,000 solar power units as part of an Australian aid funded project. After some funding difficulties at the Federal Government level, this project is now underway. It is important not just for the Northern Territory but for Australia as a whole. It will identify Australia — and the Northern Territory — as having the most experienced solar power industry for tropical conditions in the world.

Tourism

In the Foreword, the Northern Territory Minister for Asian Relations and Trade, the Hon. Eric Poole, puts forward the innovative idea of an open-skies policy between the Territory and Eastern Indonesia as one way of encouraging more air transport links around the sub-region and greater tourist flows. He also suggests joint promotion of tourism to bring more tourists to the sub-region. Both regions have areas of great natural beauty, and fascinating cultures and histories, all ideal attractions to draw in large numbers of tourists. Why not encourage the joint promotion of Bali-Kakadu-Ayers Rock or Bali-Komodo-Kakadu tours to European and American tourists?

The Australia-Indonesia Development Area

The seminar was fortunate in having a presentation from Mr Michael Potts, head of the South East Asia Maritime Branch of the Department of Foreign Affairs and Trade on the Australia-Indonesia Development Area (AIDA), an initiative put forward by the Indonesian Government at the third Australia-Indonesia Ministerial Forum in Jakarta in October 1996 and formally launched in Ambon, Eastern Indonesia, on 24 April 1997.

AIDA is one of several initiatives of the Indonesian Government to accelerate economic growth and raise incomes in the disadvantaged parts of Eastern Indonesia, which has tended to lag behind Java, Bali and Sumatra. AIDA is the initiative of the Coordinating Minister for Production and Distribution, Dr Hartarto. Its task is, with governmental and business support from Australia, to stimulate growth in the provinces of Eastern
Conclusion

Indonesia, raise incomes and welfare in Eastern Indonesia, reduce inequity and help strengthen national cohesion.

AIDA is not the only governmental initiative focussed on helping the less developed parts of Eastern Indonesia. The President has also entrusted to the Minister for Research and Technology, BJ Habibie, another initiative to accelerate growth in Eastern Indonesia and narrow the development gap with Western Indonesia. Minister Habibie chairs the President’s Council on Eastern Indonesia. It has begun to formulate ambitious plans for integrated development areas in the provinces of Eastern Indonesia. The Northern Territory is working with the Council’s Secretariat to determine where it can assist the work of the Council. Habibie pioneered the rural electrification program mentioned above, in which the Darwin company ITS is involved.

Both sides have moved a little too quickly to formalise the AIDA initiative, when more planning and careful thought would have been useful in first refining the concept. AIDA is an ambitious project, and Indonesian expectations of it are high, perhaps unreasonably high. The development needs of the less developed parts of Eastern Indonesia are enormous and it is difficult to imagine Australian business investing in the sub-region except in the mining sector in which Australian companies are already heavily involved. Australian business outside the mining sector is heavily focussed on the population centres of Indonesia - Java, Bali and Sumatra - and are unlikely to re-orient to a difficult and scattered market which is small compared to the rest of Indonesia. The whole of Australia, including business, cannot therefore meet the expectations generated by this new initiative. Nor does the Federal Government have the resources to bridge this expectations gap. If the flow of Australian investment and resources does not meet Indonesian expectations, the result will be disappointment. Five years after the conclusion of its MOU on Economic Development Cooperation, the Northern Territory faced expressions of disappointment that the MOU had not lived up to expectations which could never have been met from the resources of the Northern Territory.

Although there is a strong commitment from both sides to involve Australian and Indonesian business in the development
of AIDA, it is difficult to see the structures now in place avoiding a descent into bureaucratism. It will require considerable effort on the part of those involved to avoid it becoming a humdrum bureaucratic consultation.

While the Northern Territory has been involved in the development of the AIDA concept from its beginnings, there is also a real risk that the widening of the Australian focus on Eastern Indonesia from the Northern Territory to the whole of Australia ignores some basic realities of trade and increases the chances of failure. The centre of the Australian economy is in the south east corner of the continent. Its shipping links are with the main shipping centres of Asia, not with the East Indonesia sub-region. The size of the Australian economy dwarfs the economy of Eastern Indonesia and means that, with exceptions like the mining and oil and gas sectors, Australia as a whole is not a natural partner of Eastern Indonesia.

Australia's economic and political relationship with Indonesia is too important to risk the complication of a failure with AIDA. What can be done? Australia needs to respond to the development needs of Indonesia, one focus of which is Eastern Indonesia. The Federal Government and the whole of Australia, including business, need to be part of that response as it affects Eastern Indonesia. Our response will be the more effective if the scale is right, for example matching where appropriate the relative smallness of the Eastern Indonesian market and its business community with appropriately sized Australian business. The response should also exploit the proximity of Darwin to the sub-region, its similar experience and the Northern Territory's existing shipping, air and other links with Eastern Indonesia. AIDA must draw in the resources of the rest of Australia, but Darwin can help to ensure that the Australian response remains relevant, proportional and effective.

Shipping and Air Links – the Essential Glue

A constant theme throughout the seminar was the need for increased shipping and air links from Darwin into the sub-region to expand the opportunities for expanding business between Eastern Indonesia and the Northern Territory.
Conclusion

Despite problems of isolation and a relatively small market, the Northern Territory already has some significant transport links with Eastern Indonesia through Darwin. Through the live cattle export trade, there are direct shipping links with a number of Eastern Indonesian ports including Pontianak, Kupang, Timika, Ujung Pandang and Balikpapan. These ships can carry containers and extra cargo to and from these ports. A new small vessel began servicing the Surabaya-Bali-Kupang-Darwin route in March 1997. The Northern Territory has direct air links with Kupang, Denpasar and Jakarta.

The Northern Territory needs more air and shipping links. More frequent and diverse transport links out of Eastern Indonesia into the modern port of Darwin would be a strong stimulus to Eastern Indonesian growth by giving it more direct and faster services to overseas markets. It is, however, something of a chicken and egg situation: which comes first, the transport links or the trade? On the one hand, exporters and tourist operators tell government that they need regular, reliably scheduled shipping and air services before they can start trading successfully. On the other hand, airlines and shippers need to know that there is a sufficient market for them to service before they can feel confident that a new service will return a profit. Short of subsidies, governments can help by looking at ways of reducing the costs of operating new services. For example, governments could look jointly at lowering port and airport charges, reducing regulatory obstructions and removing customs delays in order to stimulate regional trade and traffic. This is already being examined in the BIMP-EAGA grouping and could easily be taken up in the AIDA context.

A major contribution of the AIDA initiative of real value to the region would be a relaxation of the regulations inhibiting new air and shipping links between northern Australia and Eastern Indonesia. In particular, an open skies policy in Eastern Indonesia would create new opportunities and make investment in this sector more attractive to Australian operators. If Australian

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5 The East ASEAN Growth Area comprising Brunei; the Indonesian provinces of South, Central, South East and North Sulawesi, Maluku, Inan Jaya and West, South, Central and East Kalimantan; East Malaysia; and the Southern Philippines.
operators were allowed access to Eastern Indonesia, the benefits for business in Eastern Indonesia would be lower freight and passenger costs, more options for shipping to overseas markets and greater tourist flows.

Better transport links into Eastern Indonesia would also have a significant impact in the mining sector, which in the coming years will be focused in East Kalimantan, Irian Jaya, Maluku and Sumbawa - all close to Darwin. Air links would permit Darwin to supply goods and services and offer secure, familiar and cost-effective accommodation to the families of expatriate staff of companies operating in these provinces.

Personal Relationships

As the seminar has shown, the Northern Territory has some important competitive advantages and it should be able to exploit them more fully in the future, particularly as the economy and incomes grow in Eastern Indonesia and transport links improve. It has used the development of MOUs to cement relations with the national government and with provinces in Eastern Indonesia. As a result, trade has grown, with the promise of stronger growth in the future in the sectors where the Northern Territory can exploit its proximity.

Personal relationships have been important in achieving this degree of progress and will continue to be important. In his address to the seminar, Dr Frans Seda drew attention to the special advantage that the Northern Territory has nurtured by developing good personal relations in Indonesia. He mentioned that soon after the change of government in Canberra in 1996, the Chief Minister of the Northern Territory, the Hon Shane Stone called on President Suharto, and handed over a letter from Australia’s new Prime Minister, Hon. John Howard. As Dr Seda mentioned, the President sought the Chief Minister’s views on the Howard government and what the change might mean for the relationship with Indonesia.

This was not the Chief Minister’s first meeting with the President. The most significant of his previous visits was for a solemn occasion, particularly important in terms of instilling a significant personal character to an official relationship. The occasion was the funeral of President Suharto’s wife, Ibu Tien
Suharto. Mrs Suharto died on Sunday 28 April. The funeral was to be held near Solo on the following Monday. This timing was extremely difficult for Mr Howard. The new Parliament was to meet for the first time on Tuesday 30 April. Sunday 28 April was, moreover, the day of the massacre at Port Arthur in Tasmania, a tragic event which made it even more impossible that the Prime Minister contemplate attending the funeral. Instead, the Chief Minister, Mr Stone, was chosen by the Prime Minister to represent him at the funeral.

It was important for Australia as a whole that there was senior representation on this occasion. It was important for the Northern Territory that its commitment to Indonesia, a natural consequence of proximity, was acknowledged in this way in Australia and again reaffirmed in Indonesia. Like the kancil (mouse deer) of popular Indonesian storytelling, what the Northern Territory lacks in size, it is making up for with skill and nous. The Northern Territory is building a reputation as an effective player in Indonesia, from which it can reap the economic benefits from the contacts and personal relationships it has been steadily nurturing since self-government in 1978.
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In recognising the potential of the Asian market in the region, the Northern Territory is marketing itself as Australia’s future gateway to Asia, particularly Indonesia. The most recent agreement to draw the boundaries for Australia-Indonesia relationships is the Australia Indonesia Development Area (AIDA) agreement, signed by Ministers Downer (Australia) and Hartarto (Indonesia) in Ambon, April 1997. AIDA emphasises the positive role of Australia in promoting private investment in the eastern provinces of Indonesia - from a Territory and also an Australia-wide perspective, the opportunities for business and government are obvious.

Despite some of the hurdles and constraints that may arise between our two countries, this collection reinforces the significance of the Northern Territory’s relationship with Indonesia. It reinforces our position as neighbours and highlights the need to assist business and encourage investment from both countries.

Contributors to this volume include the Chief Minister of the Northern Territory, Hon. Shane Stone, senior government ministers, Australian and Indonesian government experts in Eastern Indonesia, leading anthropologists, economists, historians, and business people.

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